

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

# **CITY OF DOWAGIAC**

Cass County, Michigan

## **FINANCIAL STATEMENTS**

September 30, 2007

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council  
City of Dowagiac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dowagiac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007 on our consideration of the City of Dowagiac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of pension plan funding progress and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dowagiac's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Berthiaume & Co.*

Saginaw, Michigan  
December 14, 2007

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# CITY OF DOWAGIAC

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Dowagiac's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the City's financial statements.

### Using this Annual Report:

This annual report consists of a series of financial statements. The full accrual statements include the statement of net assets and the statement of activities, which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole:

The following table shows, in a condensed format, the net assets as of the current date compared to the prior year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
<b>Assets:</b>						
Other assets	\$ 5,568,691	\$ 5,408,640	\$ 6,040,560	\$ 5,883,516	\$11,609,251	\$11,292,156
Capital assets	<u>7,062,170</u>	<u>5,657,203</u>	<u>8,567,623</u>	<u>8,888,536</u>	<u>15,629,793</u>	<u>14,545,739</u>
Total assets	<u>12,630,861</u>	<u>11,065,843</u>	<u>14,608,183</u>	<u>14,772,052</u>	<u>27,239,044</u>	<u>25,837,895</u>
<b>Liabilities:</b>						
Other liabilities	1,873,806	1,753,023	593,587	696,546	2,467,393	2,449,569
Long-term liabilities	<u>2,773,851</u>	<u>3,094,263</u>	<u>1,669,656</u>	<u>1,764,367</u>	<u>4,443,507</u>	<u>4,858,630</u>
Total liabilities	<u>4,647,657</u>	<u>4,847,286</u>	<u>2,263,243</u>	<u>2,460,913</u>	<u>6,910,900</u>	<u>7,308,199</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	4,681,029	2,994,477	6,982,623	7,233,536	11,663,652	10,228,013
Restricted	991,443	906,261	1,060,325	1,473,023	2,051,768	2,379,284
Unrestricted	<u>2,310,732</u>	<u>2,317,819</u>	<u>4,301,992</u>	<u>3,604,580</u>	<u>6,612,724</u>	<u>5,922,399</u>
Total net assets	<u>\$ 7,983,204</u>	<u>\$ 6,218,557</u>	<u>\$12,344,940</u>	<u>\$12,311,139</u>	<u>\$20,328,144</u>	<u>\$18,529,696</u>

As of September 30, 2007, the City's combined net assets increased 9.7 percent from a year ago, from \$18,529,696 to \$20,328,144. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities increased by 28.4 percent. Business-type activities increased 0.3 percent from the prior year.

# CITY OF DOWAGIAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net assets of the governmental activities, the part of the net assets that can be used to finance day-to-day operations, are \$2,310,732 or 53.5 percent of expenses.

The following table shows the changes in net assets during the current year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 823,511	\$ 1,159,787	\$ 8,044,202	\$ 7,775,557	\$ 8,867,713	\$ 8,935,344
Operating grants	940,808	825,272	106,709	112,582	1,047,517	937,854
Capital grants	1,306,500	51,000	-	-	1,306,500	51,000
General revenues						
Property taxes	1,751,239	1,669,432	45,963	44,244	1,797,202	1,713,676
Franchise taxes	41,061	40,769	-	-	41,061	40,769
State revenue sharing	747,409	768,049	-	-	747,409	768,049
Investment earnings	353,744	203,901	200,334	139,008	554,078	342,909
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>5,964,272</u>	<u>4,718,210</u>	<u>8,397,208</u>	<u>8,071,391</u>	<u>14,361,480</u>	<u>12,789,601</u>
<b>Program Expenses:</b>						
General government	1,565,434	1,776,390	-	-	1,565,434	1,776,390
Public safety	1,656,769	1,529,601	-	-	1,656,769	1,529,601
Public works	887,133	844,215	-	-	887,133	844,215
Health and welfare	-	-	-	-	-	-
Community and economic development	38,683	94,585	-	-	38,683	94,585
Recreation and culture	25,861	36,257	-	-	25,861	36,257
Interest on long-term debt	144,741	167,672	-	-	144,741	167,672
Electric	-	-	5,680,620	5,783,140	5,680,620	5,783,140
Sewer	-	-	1,662,340	1,640,300	1,662,340	1,640,300
Water	-	-	712,371	586,443	712,371	586,443
DART	-	-	203,588	196,471	203,588	196,471
Total program expenses	<u>4,318,621</u>	<u>4,448,720</u>	<u>8,258,919</u>	<u>8,206,354</u>	<u>12,577,540</u>	<u>12,655,074</u>
Increase in net assets before other items	<u>1,645,651</u>	<u>269,490</u>	<u>138,289</u>	<u>(134,963)</u>	<u>1,783,940</u>	<u>134,527</u>
<b>Other items:</b>						
Contributions to principal	10,313	21,600	-	-	10,313	21,600
Sale of capital assets - gains	4,195	5,600	-	-	4,195	5,600
Transfers	104,488	172,351	(104,488)	(172,351)	-	-
Total other items	<u>118,996</u>	<u>199,551</u>	<u>(104,488)</u>	<u>(172,351)</u>	<u>14,508</u>	<u>27,200</u>
<b>Change in net assets</b>	<u>1,764,647</u>	<u>469,041</u>	<u>33,801</u>	<u>(307,314)</u>	<u>1,798,448</u>	<u>161,727</u>
Net assets, beginning	<u>6,218,557</u>	<u>5,749,516</u>	<u>12,311,139</u>	<u>12,618,453</u>	<u>18,529,696</u>	<u>18,367,969</u>
Net assets, ending	<u>\$ 7,983,204</u>	<u>\$ 6,218,557</u>	<u>\$ 12,344,940</u>	<u>\$ 12,311,139</u>	<u>\$ 20,328,144</u>	<u>\$ 18,529,696</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **The City's Funds:**

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's only major fund for fiscal year 2007 was the General Fund.

The General Fund pays for most of the City's governmental services, the most significant of which is public safety, with expenses of \$1,656,769 in fiscal year 2007.

### **General Fund Budgetary Highlights:**

The General Fund budget was adjusted throughout the year to reflect over \$26,000 less in State revenue sharing than was originally forecasted by the State when the budget was assembled in March 2007. The City only received \$747,409 which, ironically, basically equals the amount received twelve years ago. During this same period the rate of inflation was 28.8% according to the Consumer Price Index for urban wage earners and clerical workers as calculated by the United States Bureau of Labor Statistics. If State revenue sharing would have kept pace with the rate of inflation, the City should have received over \$964,000 during the fiscal year 2006-07.

Health insurance continues to increase at rates far beyond the CPI rate noted earlier. In the last eleven years the health care premium rate for a family insured by the City has risen from \$374.00 to \$1,235.00, an increase of 330%. During the same period the City's annual health care expense has increased from \$341,000 to \$912,000 per year with the General Fund share increasing from \$200,000 to \$443,000 per year.

During the same previous eleven-year period, the General Fund tax revenue increased from \$942,000 to \$1,301,000 for a net gain of \$359,000. This increase occurred even though the General Fund tax levy decreased 9.3% from 17.7070 mills to 16.0521 mills due to Headlee tax rollbacks and the roll off of a Sewer Fund debt millage. The modest increase in tax revenue of \$359,000, however, fails to cover the increase in costs of General Fund health insurance premiums of \$243,000 and the loss of over \$183,000 a year in State Revenue Sharing funds as compared to that received in fiscal year 2001-02.

The General Fund has an operational deficit with expenses exceeding revenues by nearly \$14,000 for the fiscal year ending September 30, 2007. This resulted in the fund balance decreasing to \$701,162 or about 19.3% of the General Fund budget. The fiscal year 2007-08 General Fund budget projects an operational deficit of \$84,673 which will bring our fund balance down to only \$616,489 on September 30, 2008, which is 16.9% of the annual General Fund budget. As per the City's auditors, the minimum fund balance for the General Fund should be 20% or \$726,000. Based on the current year budget, the City will end up \$109,511 short of this audit recommended fund balance for the fiscal year 2007-08. Given that out property tax base is relatively flat and the State Revenue Sharing is not anticipated to increase, the General Fund should be reviewed in detail to see if additional revenues can be located and/or existing budgeted expenses can be lessened or eliminated.

On October 1, 2006 the City implemented a revised health care plan in which it self-insures the cost of increased deductibles and its drug benefits for all active employees. It has saved enough to limit the annual increase for the ensuing fiscal year to approximately 6.6%. The most expensive component of the City's fringe benefit package, however, remains our health insurance. A typical family rate for a family designation now costs in excess of \$14,000 per year.

### **Proprietary Fund Highlights:**

The City's Proprietary Funds (Electric, Water, Sewer and DART) experienced a cumulative net income (after depreciation and transfers) of \$33,801 with the Electric division the only fund to experience a net income. The combined net loss for the Sewer and Water Funds resulted from over \$500,000 in maintenance and repairs to the wastewater treatment plant and a water tower. Normally, such costs are closer to \$100,000 but this year the City had several large ticket projects.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The DART Fund experienced a net loss of \$ 19,288. The ridership fares were increased effective as of September 1, 2007 representing the first increase in fares since the DART system was placed in operation in 1975. Even with this fare increase, however, it is anticipated that a net loss will result from the current year's operations. It may be necessary to increase the DART millage levy if this fund is to operate on a breakeven basis given that its net assets have declined from \$ 242,524 as of September 30, 2000 to only \$ 162,643 as of September 30, 2007.

From a cash flow perspective, the Proprietary Funds had a cumulative increase of \$65,823. The Electric and Water Funds had increases of \$515,344 and \$39,196, respectively. The Sewer and DART Funds had decreases of \$478,944 and \$9,773, respectively. The Electric Fund had a larger than anticipated cash increase as several major projects including the Industrial Park and Pokagon Street underground electric projects (totaling \$ 370,000), and various transmission projects were placed on hold pending settlement of our power supply contract which is estimated to increase wholesale power cost to the City by as much as 60%.

### **Fiduciary Fund Highlights:**

The City has a trust agreement with the Michigan Municipal Employees Retirement System (MERS) for the investment of surplus funds on our Retiree Health Insurance Fund. To date it has transferred \$200,000 to the MERS trust so that it can be invested by MERS and obtain higher yields than the City administration can obtain. This principal amount has grown to \$262,721 in slightly less than three years. For the fiscal year ending September 30, 2007, the rate of return was approximately 10.4% as compared to the City's portfolio which only earned a composite rate of return of 4.60%.

### **Capital Assets and Debt Administration:**

At the end of fiscal year 2007, the City has \$27,623,671 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, electric, sewer and water systems.

Debt of \$2,381,473 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets and \$1,585,000 of debt related to the sewer and water systems is recorded as a liability in the business-type activities in the statement of net assets.

### **Economic Factors:**

The City continues to maintain positive fund equity in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has increased but is limited to the annual Headlee factor, resulting in small increases in property taxes; as stated earlier, the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care). We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

### **Contacting the City's Financial Management:**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Pilot, Finance Director, 241 S. Front Street, Dowagiac, Michigan, 49047.

## ***BASIC FINANCIAL STATEMENTS***

## STATEMENT OF NET ASSETS

September 30, 2007

	<i>Primary Government</i>			<i>Component</i>
	<i>Governmental</i>	<i>Business-type</i>		<i>Units</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	
<b>Assets:</b>				
Cash and cash equivalents	\$ 964,531	\$ 1,132,929	\$ 2,097,460	\$ 52,554
Investments	3,795,437	1,919,758	5,715,195	-
Receivables	732,847	1,681,524	2,414,371	137,706
Inventory	-	204,356	204,356	-
Prepaid expenses	75,876	41,668	117,544	767
Investment in land	-	-	-	451,769
Restricted cash and cash equivalents	-	809	809	-
Restricted investments	-	1,059,516	1,059,516	-
Capital assets:				
Nondepreciable capital assets	2,849,903	66,451	2,916,354	-
Depreciable capital assets, net	<u>4,212,267</u>	<u>8,501,172</u>	<u>12,713,439</u>	<u>-</u>
Total assets	<u>12,630,861</u>	<u>14,608,183</u>	<u>27,239,044</u>	<u>642,796</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	233,284	593,587	826,871	267,531
Deferred revenue	1,640,522	-	1,640,522	77,843
Long-term liabilities:				
Due within one year	149,052	75,000	224,052	105,000
Due in more than one year	<u>2,624,799</u>	<u>1,594,656</u>	<u>4,219,455</u>	<u>1,061,156</u>
Total liabilities	<u>4,647,657</u>	<u>2,263,243</u>	<u>6,910,900</u>	<u>1,511,530</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	4,681,029	6,982,623	11,663,652	-
Restricted for:				
Debt service	73,194	250,809	324,003	-
Streets	163,883	-	163,883	-
Nonexpendable cemetery principal	754,366	-	754,366	-
Replacement of capital assets	-	809,516	809,516	-
Unrestricted	<u>2,310,732</u>	<u>4,301,992</u>	<u>6,612,724</u>	<u>(868,734)</u>
Total net assets	<u>\$ 7,983,204</u>	<u>\$ 12,344,940</u>	<u>\$ 20,328,144</u>	<u>\$ (868,734)</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
General government	\$ 1,565,434	\$ 564,336	\$ 14,706	\$ 1,306,500	\$ 320,108
Public safety	1,656,769	97,900	297,254	-	(1,261,615)
Public works	887,133	54,749	501,913	-	(330,471)
Community and economic development	38,683	25,932	5,000	-	(7,751)
Recreation and culture	25,861	80,594	-	-	54,733
Interest on long-term debt	144,741	-	121,935	-	(22,806)
Total governmental activities	4,318,621	823,511	940,808	1,306,500	(1,247,802)
<i>Business-type activities:</i>					
Electric	5,680,620	6,170,521	-	-	489,901
Sewer	1,662,340	1,219,391	-	-	(442,949)
Water	712,371	636,924	-	-	(75,447)
DART	203,588	17,366	106,709	-	(79,513)
Total business-type activities	8,258,919	8,044,202	106,709	-	(108,008)
Total primary government	\$ 12,577,540	\$ 8,867,713	\$ 1,047,517	\$ 1,306,500	\$(1,355,810)
<b>COMPONENT UNITS:</b>					
Downtown development authority	\$ 161,981	\$ 103,792	\$ -	\$ -	\$ (58,189)
Local development finance authority	13,067	92	-	-	(12,975)
Brownfield redevelopment authority	795,819	-	-	-	(795,819)
Total component units	\$ 970,867	\$ 103,884	\$ -	\$ -	\$ (866,983)

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,247,802)	\$ (108,008)	\$ (1,355,810)	\$ (866,983)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	1,309,786	45,963	1,355,749	-
Property taxes, levied for trash collection	128,714	-	128,714	-
Property taxes, captured by component units	-	-	-	190,209
Payment in lieu of property taxes	312,739	-	312,739	-
Franchise taxes	41,061	-	41,061	-
Grants and contributions not restricted to specific programs	747,409	-	747,409	-
Unrestricted investment earnings	353,744	200,334	554,078	10,546
Contributions to principal of permanent funds	10,313	-	10,313	-
Special item - Gain on sale of capital asset	4,195	-	4,195	-
Transfers	104,488	(104,488)	-	-
Total general revenues, contributions, special items and transfers	<u>3,012,449</u>	<u>141,809</u>	<u>3,154,258</u>	<u>200,755</u>
Change in net assets	1,764,647	33,801	1,798,448	(666,228)
Net assets, beginning of year	<u>6,218,557</u>	<u>12,311,139</u>	<u>18,529,696</u>	<u>(202,506)</u>
Net assets, end of year	<u>\$ 7,983,204</u>	<u>\$ 12,344,940</u>	<u>\$ 20,328,144</u>	<u>\$ (868,734)</u>

# CITY OF DOWAGIAC

## GOVERNMENTAL FUNDS

### BALANCE SHEET

September 30, 2007

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 98,718	\$ 752,417	\$ 851,135
Investments	1,794,083	1,163,277	2,957,360
Taxes receivable	241,388	-	241,388
Accounts receivable	44,493	5,875	50,368
Notes receivable	-	83,433	83,433
Accrued interest receivable	30,420	8,952	39,372
Due from other governmental units	208,617	78,755	287,372
Prepaid expenditures	67,383	7,188	74,571
Total assets	<u>\$ 2,485,102</u>	<u>\$ 2,099,897</u>	<u>\$ 4,584,999</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 45,006	\$ 28,225	\$ 73,231
Accrued expenses	39,181	2,374	41,555
Due to component unit	77,843	-	77,843
Deposits payable	425	1,550	1,975
Deferred revenue	1,621,485	109,745	1,731,230
Total liabilities	<u>1,783,940</u>	<u>141,894</u>	<u>1,925,834</u>
<b>Fund balances:</b>			
Reserved for:			
Prepaid expenditures	67,383	7,188	74,571
Debt service	-	73,194	73,194
Nonexpendable cemetery principal	-	754,366	754,366
Unreserved:			
Designated, reported in:			
General fund	5,534	-	5,534
Undesignated			
General fund	628,245	-	628,245
Special revenue funds	-	975,997	975,997
Capital projects funds	-	69,891	69,891
Permanent fund	-	77,367	77,367
Total fund balances	<u>701,162</u>	<u>1,958,003</u>	<u>2,659,165</u>
Total liabilities and fund balances	<u>\$ 2,485,102</u>	<u>\$ 2,099,897</u>	<u>\$ 4,584,999</u>

The accompanying notes are an integral part of these financial statements.

## RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Year Ended September 30, 2007

**Total fund balances for governmental funds** \$ 2,659,165

Total net assets reported for governmental activities in the statement of  
of net assets is different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the governmental funds.

Governmental capital assets	6,809,713	
Less accumulated depreciation	<u>(768,902)</u>	6,040,811

Interest payable in the governmental activities are not payable from  
current resources and therefore are not reported in the governmental  
funds. (29,147)

Deferred revenues reported in the governmental funds are recognized as  
revenues for the governmental activities.

Property taxes	7,275	
Loans	<u>83,433</u>	90,708

Long-term liabilities are not due and payable in the current year and  
therefore are not reported in the governmental funds:

Bonds payable	(1,010,000)	
Loans and notes payable	(1,371,473)	
Compensated absences payable	<u>(386,598)</u>	(2,768,071)

The assets and liabilities of internal service funds are included in governmental  
activities in the statement of net assets.

1,989,738

**Net assets of governmental activities** \$ 7,983,204

*The accompanying notes are an integral part of these financial statements.*



# CITY OF DOWAGIAC

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2007

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Revenues:</b>			
Property taxes	\$ 1,682,554	\$ 128,714	\$ 1,811,268
Licenses and permits	95,713	-	95,713
Federal grants	1,072,000	5,000	1,077,000
State grants	1,004,383	484,360	1,488,743
Contributions from other units	285,236	-	285,236
Charges for services	550,311	1,323	551,634
Fines and forfeits	10,022	29,471	39,493
Interest and rents	157,343	175,360	332,703
Other revenue	65,937	615,514	681,451
Total revenues	<u>4,923,499</u>	<u>1,439,742</u>	<u>6,363,241</u>
<b>Expenditures:</b>			
Current			
General government	1,010,895	128,653	1,139,548
Public safety	1,587,191	30,798	1,617,989
Public works	77,338	665,468	742,806
Community and economic development	-	18,819	18,819
Recreation and culture	-	19,354	19,354
Other	518,115	228,428	746,543
Capital outlay	1,323,943	189,855	1,513,798
Debt service			
Principal	-	159,318	159,318
Interest and fees	-	148,900	148,900
Total expenditures	<u>4,517,482</u>	<u>1,589,593</u>	<u>6,107,075</u>
Excess (deficiency) of revenues over expenditures	<u>406,017</u>	<u>(149,851)</u>	<u>256,166</u>
<b>Other financing sources (uses):</b>			
Transfers in	4,829	433,288	438,117
Transfers out	<u>(424,658)</u>	<u>(101,792)</u>	<u>(526,450)</u>
Total other financing sources (uses)	<u>(419,829)</u>	<u>331,496</u>	<u>(88,333)</u>
Net change in fund balances	(13,812)	181,645	167,833
Fund balances, beginning of year	<u>714,974</u>	<u>1,776,358</u>	<u>2,491,332</u>
Fund balances, end of year	<u>\$ 701,162</u>	<u>\$ 1,958,003</u>	<u>\$ 2,659,165</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

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## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

**Net change in fund balances - total governmental funds** \$ 167,833

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,529,980	
Less depreciation expense	<u>(85,115)</u>	1,444,865

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue in previous years.

Personal property taxes	18	
Notes proceeds	<u>(290,561)</u>	(290,543)

Repayments of principal on long-term obligations are expenditures in governmental but the payments reduce long-term liabilities in the statement of net assets. 281,253

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	41,366	
Change in accrued interest on bonds and loans payable	<u>4,159</u>	45,525

The net revenue (expense) of the internal service fund is reported with governmental activities. 115,714

**Change in net assets of governmental activities** \$ 1,764,647

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF NET ASSETS** September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
<b>Assets:</b>						
<b><i>Current assets:</i></b>						
Cash and cash equivalents	\$ 1,136,296	\$ (88,339)	\$ 105,940	\$ (20,968)	\$ 1,132,929	\$ 113,396
Investments	494,236	959,012	288,598	177,912	1,919,758	838,077
Accounts receivable	1,037,237	179,527	140,153	531	1,357,448	7,383
Notes receivable	-	-	-	-	-	8,590
Accrued interest receivable	11,379	17,295	3,314	2,695	34,683	14,432
Due from other governmental units	4,671	37,276	-	7,300	49,247	509
Inventory	118,040	18,250	68,066	-	204,356	-
Prepaid expenses	14,692	14,560	7,711	4,705	41,668	1,305
Total current assets	<u>2,816,551</u>	<u>1,137,581</u>	<u>613,782</u>	<u>172,175</u>	<u>4,740,089</u>	<u>983,692</u>
<b><i>Noncurrent assets:</i></b>						
Restricted cash and cash equivalents	-	809	-	-	809	-
Restricted investments	809,516	250,000	-	-	1,059,516	-
Capital assets:						
Nondepreciable capital assets	16,775	47,710	1,966	-	66,451	-
Depreciable capital assets, net	2,772,479	3,850,832	1,877,793	68	8,501,172	1,021,359
Advance to component unit	-	240,146	-	-	240,146	-
Total noncurrent assets	<u>3,598,770</u>	<u>4,389,497</u>	<u>1,879,759</u>	<u>68</u>	<u>9,868,094</u>	<u>1,021,359</u>
Total assets	<u>6,415,321</u>	<u>5,527,078</u>	<u>2,493,541</u>	<u>172,243</u>	<u>14,608,183</u>	<u>2,005,051</u>

continued

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF NET ASSETS, CONTINUED** September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
<b>Liabilities:</b>						
<b><i>Current liabilities:</i></b>						
Accounts payable	333,728	59,944	73,677	1,147	468,496	8,501
Accrued expenses	16,838	6,533	3,528	1,852	28,751	1,032
Due to other governmental units	-	468	-	-	468	-
Deposits payable	51,095	-	16,580	-	67,675	-
Accrued interest payable	-	18,794	9,403	-	28,197	-
Current long-term debt	-	49,988	25,012	-	75,000	-
Total current liabilities	<u>401,661</u>	<u>135,727</u>	<u>128,200</u>	<u>2,999</u>	<u>668,587</u>	<u>9,533</u>
<b><i>Noncurrent liabilities:</i></b>						
Compensated absences payable	41,005	26,545	10,573	6,533	84,656	5,780
Long-term debt	-	1,006,435	503,565	-	1,510,000	-
Total noncurrent liabilities	<u>41,005</u>	<u>1,032,980</u>	<u>514,138</u>	<u>6,533</u>	<u>1,594,656</u>	<u>5,780</u>
Total liabilities	<u>442,666</u>	<u>1,168,707</u>	<u>642,338</u>	<u>9,532</u>	<u>2,263,243</u>	<u>15,313</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	2,789,254	2,842,119	1,351,182	68	6,982,623	1,021,359
Restricted for:						
Debt service	-	250,809	-	-	250,809	-
Replacement of capital assets	809,516	-	-	-	809,516	-
Unrestricted	<u>2,373,885</u>	<u>1,265,443</u>	<u>500,021</u>	<u>162,643</u>	<u>4,301,992</u>	<u>968,379</u>
Total net assets	<u>\$ 5,972,655</u>	<u>\$ 4,358,371</u>	<u>\$ 1,851,203</u>	<u>\$ 162,711</u>	<u>\$12,344,940</u>	<u>\$ 1,989,738</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Year Ended September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
<b>Operating revenues:</b>						
Charges for services	\$ 6,082,396	\$ 1,138,484	\$ 569,072	\$ 17,262	\$ 7,807,214	\$ -
Penalties	65,252	15,753	12,620	-	93,625	-
Equipment rental	-	-	-	-	-	437,641
Other	22,873	65,154	7,382	104	95,513	29,605
Total operating revenues	<u>6,170,521</u>	<u>1,219,391</u>	<u>589,074</u>	<u>17,366</u>	<u>7,996,352</u>	<u>467,246</u>
<b>Operating expenses:</b>						
Personnel	464,015	305,974	182,072	86,070	1,038,131	47,141
Fringe benefits	213,651	168,064	85,497	48,262	515,474	18,613
Supplies	25,381	92,743	19,456	13,428	151,008	103,858
Property tax equivalents	297,556	-	-	-	297,556	-
Contracted services	203,646	132,459	28,635	5,426	370,166	22,700
Purchase of power	3,638,489	-	-	-	3,638,489	-
Administrative expense	209,491	113,459	82,381	11,098	416,429	14,429
Telephone	4,114	6,515	2,641	1,042	14,312	-
Mileage	6,720	1,680	1,680	-	10,080	-
Dues and membership fees	17,082	-	-	-	17,082	-
Education and training	9,784	26	446	-	10,256	-
Printing and publishing	250	-	-	45	295	-
Insurance	53,132	40,932	13,374	3,432	110,870	29,219
Utilities	88,758	129,196	41,082	-	259,036	12,198
Repairs and maintenance	128,205	387,164	138,049	8,902	662,320	118,169
Equipment rental	137,123	85,443	19,905	542	243,013	3,645
Building rent	-	-	-	9,282	9,282	-
Other services and supplies	2,696	1,240	752	823	5,511	4,648
Depreciation	180,527	140,504	67,912	15,236	404,179	236,665
Total operating expenses	<u>5,680,620</u>	<u>1,605,399</u>	<u>683,882</u>	<u>203,588</u>	<u>8,173,489</u>	<u>611,285</u>
Operating income (loss)	<u>489,901</u>	<u>(386,008)</u>	<u>(94,808)</u>	<u>(186,222)</u>	<u>(177,137)</u>	<u>(144,039)</u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>		
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Non-operating revenues</b>						
<b>(expenses):</b>						
Property taxes	-	-	-	45,963	45,963	-
Federal grants	-	-	-	30,047	30,047	16,808
State grants	-	-	-	76,662	76,662	-
Interest income	84,417	87,121	14,534	14,262	200,334	45,929
Rental income	-	-	47,850	-	47,850	-
Gain on sale of assets	-	-	-	-	-	4,195
Interest expense	-	(56,941)	(28,489)	-	(85,430)	-
Total non-operating revenues (expenses)	84,417	30,180	33,895	166,934	315,426	66,932
Net income (loss) before operating transfers	574,318	(355,828)	(60,913)	(19,288)	138,289	(77,107)
<b>Operating transfers:</b>						
Transfer from other funds	13,701	55,262	52,212	-	121,175	192,821
Transfer to other funds	(152,038)	(68,045)	(5,580)	-	(225,663)	-
Total operating transfers	(138,337)	(12,783)	46,632	-	(104,488)	192,821
Net income (loss)	435,981	(368,611)	(14,281)	(19,288)	33,801	115,714
Net assets, beginning of year	5,536,674	4,726,982	1,865,484	181,999	12,311,139	1,874,024
Net assets, end of year	<u>\$ 5,972,655</u>	<u>\$ 4,358,371</u>	<u>\$ 1,851,203</u>	<u>\$ 162,711</u>	<u>\$12,344,940</u>	<u>\$ 1,989,738</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF CASH FLOWS** Year Ended September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 6,124,168	\$ 1,202,698	\$ 573,592	\$ 13,687	\$7,914,145	\$ 46,361
Cash received for interfund services	-	-	-	-	-	417,364
Cash payments for interfund services	(346,614)	(198,902)	(102,286)	(11,640)	(659,442)	(18,074)
Cash payments to employees	(485,739)	(309,915)	(181,739)	(85,449)	(1,062,842)	(44,934)
Cash payments to suppliers for goods and services	<u>(4,678,906)</u>	<u>(1,141,791)</u>	<u>(271,708)</u>	<u>(93,305)</u>	<u>(6,185,710)</u>	<u>(320,479)</u>
Net cash provided (used) by operating activities	<u>612,909</u>	<u>(447,910)</u>	<u>17,859</u>	<u>(176,707)</u>	<u>6,151</u>	<u>80,238</u>
<b>Cash flows from non-capital financing activities:</b>						
Payment received on advance to component unit	-	2,000	-	-	2,000	-
Operating transfers in	13,701	55,262	52,212	-	121,175	192,821
Operating transfers out	<u>(152,038)</u>	<u>(68,045)</u>	<u>(5,580)</u>	<u>-</u>	<u>(225,663)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>(138,337)</u>	<u>(10,783)</u>	<u>46,632</u>	<u>-</u>	<u>(102,488)</u>	<u>192,821</u>
<b>Cash flows from capital and related financing activities:</b>						
Property taxes	-	-	-	45,963	45,963	-
Federal grants	-	-	-	30,047	30,047	16,808
Proceeds from sale of assets	-	-	-	-	-	4,195
Acquisition and construction of capital assets	(43,645)	(3,776)	(35,845)	-	(83,266)	(196,767)
Principal payments	-	(46,655)	(23,345)	-	(70,000)	-
Interest paid	<u>-</u>	<u>(56,941)</u>	<u>(28,489)</u>	<u>-</u>	<u>(85,430)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(43,645)</u>	<u>(107,372)</u>	<u>(87,679)</u>	<u>152,672</u>	<u>(86,024)</u>	<u>(175,764)</u>

continued

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF CASH FLOWS, CONTINUED** Year Ended September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>		
<b>Cash flows from investing activities:</b>						
Interest received	84,417	87,121	14,534	14,262	200,334	45,929
Rent received	-	-	47,850	-	47,850	-
Net cash provided by investing activities	84,417	87,121	62,384	14,262	248,184	45,929
Net increase (decrease) in cash and cash equivalents	515,344	(478,944)	39,196	(9,773)	65,823	143,224
Cash, cash equivalents, and investments, beginning of year	1,924,704	1,600,426	355,342	166,717	4,047,189	808,249
Cash, cash equivalents, and investments, end of year	<u>\$2,440,048</u>	<u>\$1,121,482</u>	<u>\$ 394,538</u>	<u>\$ 156,944</u>	<u>\$4,113,012</u>	<u>\$ 951,473</u>

continued

*The accompanying notes are an integral part of these financial statements.*



*PROPRIETARY FUNDS*  
**STATEMENT OF CASH FLOWS, CONTINUED**  
 Year Ended September 30, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>		
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 489,901	\$ (386,008)	\$ (94,808)	\$ (186,222)	\$ (177,137)	\$ (144,039)
Adjustments:						
Depreciation	180,527	140,504	67,912	15,236	404,179	236,665
Change in assets and liabilities:						
Accounts receivable	(44,308)	19,820	(14,429)	112	(38,805)	743
Notes receivable	-	-	-	-	-	1,984
Accrued interest receivable	(1,915)	763	(53)	656	(549)	(6,230)
Due from other governmental units	(130)	(37,276)	-	(4,447)	(41,853)	(18)
Inventory	7,337	(631)	(5,790)	-	916	-
Prepaid expenses	(4,568)	(4,534)	(2,625)	(1,203)	(12,930)	(233)
Accounts payable	(12,370)	(167,053)	61,081	(1,528)	(119,870)	(10,983)
Accrued expenses	7,715	(28,816)	(9,935)	68	(30,968)	142
Due to other governmental units	-	468	-	-	468	-
Deposits payable	12,444	-	7,770	-	20,214	-
Deferred revenue	-	-	(1,000)	-	(1,000)	-
Compensated absences payable	(21,724)	(3,941)	333	621	(24,711)	2,207
Net cash provided (used) by operating activities	<u>\$ 612,909</u>	<u>\$ (447,910)</u>	<u>\$ 17,859</u>	<u>\$ (176,707)</u>	<u>\$ 6,151</u>	<u>\$ 80,238</u>

*The accompanying notes are an integral part of these financial statements.*

*FIDUCIARY FUNDS*  
**STATEMENT OF NET ASSETS**  
September 30, 2007

	<i>Retiree Health Insurance Fund</i>	<i>Agency Funds</i>	<i>Total Fiduciary Funds</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 43,361	\$ 388,334	\$ 431,695
Investments	262,722	-	262,722
Prepaid expenses	<u>6,509</u>	<u>-</u>	<u>6,509</u>
Total assets	<u>312,592</u>	<u>388,334</u>	<u>700,926</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	-	15,838	15,838
Due to other governmental units	-	372,496	372,496
Deferred revenue	<u>1,490</u>	<u>-</u>	<u>1,490</u>
Total liabilities	<u>1,490</u>	<u>388,334</u>	<u>389,824</u>
<b>Net Assets:</b>			
Net assets held in trust for retiree health insurance	<u>311,102</u>	<u>-</u>	<u>311,102</u>
Total net assets	<u><u>\$ 311,102</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 311,102</u></u>

*The accompanying notes are an integral part of these financial statements.*

*FIDUCIARY FUNDS*  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year Ended September 30, 2007

	<i>Retiree Health Insurance Fund</i>
<b>Additions:</b>	
Employee contributions	\$ 66,318
Employer contributions	55,188
Investment income	<u>34,277</u>
Total additions	<u>155,783</u>
<b>Deductions:</b>	
Benefit payments	<u>103,109</u>
Total deductions	<u>103,109</u>
Net increase (decrease)	52,674
Net assets, beginning of year	<u>258,428</u>
Net assets, end of year	<u><u>\$ 311,102</u></u>

*The accompanying notes are an integral part of these financial statements.*

## ***NOTES TO FINANCIAL STATEMENTS***

## NOTES TO FINANCIAL STATEMENTS

September 30, 2007

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies of the City of Dowagiac conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity:**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

**Discretely Presented Component Units** - The component units' columns in the combined financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

***Downtown Development Authority*** - The Downtown Development Authority (DDA) is a separate legal entity. The budgets and expenditures of the DDA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority. The City has backed the DDA's long-term debt.

***Local Development Finance Authority*** - The Local Development Finance Authority (LDFA) is a separate legal entity. The budgets and expenditures of the LDFA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority.

***Brownfield Redevelopment Authority*** - The Brownfield Redevelopment Authority is a separate legal entity. The budgets and expenditures of the Authority are approved by the City Council. The City has the ability to significantly influence operations of the Authority. The City has backed the Authority's long-term debt.

**Blended Component Unit** - The transactions of the Dowagiac Municipal Building Authority are included in the funds of the primary government. The purpose of the Building Authority was to finance the construction of the new City Hall in 1997.

The Dowagiac Housing Commission is not a component unit of the City.

#### **Joint Operation:**

**The Cass-Van Buren Emergency Services Authority** – The City of Dowagiac, Townships of Keeler, LaGrange, Pokagon, Silver Creek, Volinia and Wayne, and the Pokagon Band of Potawatami Indians jointly established the Cass-Van Buren Emergency Services Authority. Each member appoints a representative to serve on the administrative board of the Authority.

#### **Basis of Presentation – Fund Accounting:**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### **Basis of Accounting:**

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

#### **FUND FINANCIAL STATEMENTS**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

The City reports the following major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The City reports the following major enterprise funds:

**Electric Fund** – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

**Sewer Fund** – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

**Water Fund** – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

### Assets, Liabilities and Equity:

**Cash and Investments** – Cash and investments include cash on hand, demand deposits, time deposits, highly liquid investments with original maturity of three months or less, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices. For purposes of the statement of cash flows, cash includes all cash and investments.

**Restricted Assets** – Certain resources set aside for equipment replacement, repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by City Charter and applicable bond covenants.

**Receivables and Payables** – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

**Property Taxes** – Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following July 1 and are due without penalty on or before September 15 with the final collection date of February 28 before they are added to the County tax rolls. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

The 2006 taxable valuation of the City totaled \$96,506,124, on which ad valorem taxes levied consisted of 14.1521 mills for the City’s operating purposes, .5000 for D.A.R.T, and 1.4000 for solid waste disposal.

**Inventories and Prepaid Expenses** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

**Capital Assets** – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized. Buildings and improvements, infrastructure, vehicles, machinery and other equipment, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	5-25 years
Machinery and other equipment	5-33 years
Furniture and equipment	5-25 years

***Compensated Absences*** – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation days. Employees working the equivalent of a 40-hour work week shall have a maximum cash surrender value of accumulated sick leave based on their date of hire, either up to 80% of 960 hours for those hired before April 30, 1998 or 50% of 60 days for those hired thereafter. Fire department employees working the equivalent of five 24-hour days in a bi-weekly period shall have a maximum cash surrender value of accumulated sick leave of up to 36.9231% of 2,756 hours. The maximum accumulated amount of sick hours is dependent upon hire date. There is no maximum cash surrender value of accumulated vacation leave. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

***Long-term Obligations*** – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

***Fund Equity*** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Eliminations and Reclassifications:**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.



# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

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### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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#### Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

#### Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

#### State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at October 1, 2006		\$	-
Current year building permit revenue			32,268
Related expenses:			
Direct costs	150,706		
Estimated indirect costs	<u>-</u>		
Total construction code expenses			<u>150,706</u>
Cumulative surplus at September 30, 2007		\$	<u>-</u>

In accordance with the Act, no reservation of fund balance in the General Fund is required.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

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### NOTE 3: DEPOSITS AND INVESTMENTS

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Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has authorized the finance director and treasurer to use any bank that they deem necessary for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$5,241,020 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$784,268 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

#### **Custodial Credit Risk of Investments:**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 5,133,746	Counterparty

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,444,395	11.67 years
Federal Home Loan Bank	1,992,437	7.16 years
Federal Farm Credit Bank	360,338	3.21 years
Federal Home Loan Mortgage Corporation	<u>1,336,576</u>	10.73 years
	<u>\$ 5,133,746</u>	

### Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government and agency securities	\$ 5,133,746	AAA	S & P

### Concentration of Credit Risk:

The City places no limit on the amount the City may invest in any one issuer. At year end, the City had more than 5% of its investments in the following:

<u>Investment</u>	<u>Fair Value</u>	<u>Concentration</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,444,395	28%
Federal Home Loan Bank	1,992,437	39%
Federal Farm Credit Bank	360,338	7%
Federal Home Loan Mortgage Corporation	<u>1,336,576</u>	26%

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

#### Electric Fund Reserves:

The City Charter requires the establishment of an Electric Fund reserve in an amount equal to 20% of the replacement cost of the City's Electric Utility Fund's property and equipment. No appraisal of replacement cost for property and equipment was performed for the year ended September 30, 2007. The Electric Fund reserve account balance for improvements and replacements, as of September 30, 2007, is stated at \$809,516. This balance represents 20% of the estimated replacement cost for property and equipment. Which was determined by utilizing the April 17, 2003 appraisal as adjusted for the increase in the annual Consumer Price Index.

#### Sewer Fund Reserves:

The authorizing ordinance for the 2000 Water and Sewer Supply System Revenue Bonds required the establishment and maintenance of various reserve accounts as follows:

**Receiving Account** – All receipts are initially deposited into this account.

**Operation and Maintenance Account** – Quarterly transfers are to be made to cover upcoming operating expenses.

**Bond and Interest Redemption Account** – Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

**Bond Reserve Account** – From the proceeds of the Series 2000 Bonds there shall be an amount set aside which is the lesser of: (1) maximum debt service due in any year; (2) 125% of the average annual debt service; or (3) 10% of the principal amount of the bonds.

At September 30, 2007 the City had established these accounts and had restricted cash as follows:

	<i>Requirement</i>			<i>Amount Funded</i>	
	<i>October 1, 2006</i>	<i>Additions (Reductions)</i>	<i>September 30, 2007</i>	<i>Restricted Cash and Cash Equivalents</i>	<i>Restricted Investments</i>
<b>Sewer Fund:</b>					
Bond Reserve	\$ 74,072	\$ 2,866	\$ 76,938	\$ 809	\$ 100,000
Bond and Interest Redemption	169,661	-	169,661	-	150,000
	<u>\$ 243,733</u>	<u>\$ 2,866</u>	<u>\$ 246,599</u>	<u>\$ 809</u>	<u>\$ 250,000</u>
<b>Electric Fund:</b>					
Replacement of Capital Assets	<u>\$ 1,210,947</u>	<u>\$ (401,431)</u>	<u>\$ 809,516</u>	<u>\$ -</u>	<u>\$ 819,516</u>

The required minimum amount for the bond reserve is the maximum debt service due in any year.

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities for the year was as follows:

	<i>October 1, 2006</i>	<i>Additions</i>	<i>Disposals/ Retirements</i>	<i>September 30, 2007</i>
<b>Governmental Activities:</b>				
<i>Governmental Funds:</i>				
Nondepreciable capital assets:				
Land	\$ 2,849,903	\$ -	\$ -	\$ 2,849,903
Depreciable capital assets:				
Buildings and improvements	1,907,123	149,252	-	2,056,375
Land improvements	276,419	1,372,986	-	1,649,405
Vehicles	1,987	-	-	1,987
Machinery and equipment	238,301	7,742	-	246,043
Furniture and equipment	6,000	-	-	6,000
	<u>2,429,830</u>	<u>1,529,980</u>	<u>-</u>	<u>3,959,810</u>
<i>Internal Service Funds:</i>				
Buildings and improvements	143,233	-	-	143,233
Vehicles	2,002,580	96,133	(31,074)	2,067,639
Machinery and equipment	1,046,836	100,634	-	1,147,470
Furniture and equipment	191,861	-	-	191,861
	<u>3,384,510</u>	<u>196,767</u>	<u>(31,074)</u>	<u>3,550,203</u>
Subtotal depreciable capital assets	5,814,340	1,726,747	(31,074)	7,510,013
Accumulated depreciation:				
Governmental Funds	(683,787)	(85,115)	-	(768,902)
Internal Service Funds	<u>(2,323,253)</u>	<u>(236,665)</u>	<u>31,074</u>	<u>(2,528,844)</u>
Total accumulated depreciation	<u>(3,007,040)</u>	<u>(321,780)</u>	<u>31,074</u>	<u>(3,297,746)</u>
Net capital assets being depreciated	<u>2,807,300</u>	<u>1,404,967</u>	<u>-</u>	<u>4,212,267</u>
Governmental Activities, capital assets, net	<u>\$ 5,657,203</u>	<u>\$ 1,404,967</u>	<u>\$ -</u>	<u>\$ 7,062,170</u>

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>September 30, 2007</u>
<b>Business-type Activities:</b>				
<i>Electric Fund:</i>				
Nondepreciable capital assets:				
Land	\$ 16,775	\$ -	\$ -	\$ 16,775
Depreciable capital assets:				
Buildings and improvements	149,397	-	-	149,397
Utility system	5,160,446	39,869	-	5,200,315
Machinery and other equipment	215,165	3,776	-	218,941
Subtotal depreciable capital assets	5,525,008	43,645	-	5,568,653
Accumulated depreciation	(2,615,647)	(180,527)	-	(2,796,174)
Net capital assets being depreciated	2,909,361	(136,882)	-	2,772,479
Electric Fund, capital assets, net	2,926,136	(136,882)	-	2,789,254
<i>Sewer Fund:</i>				
Nondepreciable capital assets:				
Land	47,710	-	-	47,710
Depreciable capital assets:				
Buildings and improvements	4,940,195	-	-	4,940,195
Utility system	2,896,906	-	-	2,896,906
Machinery and equipment	178,825	3,776	-	182,601
Subtotal depreciable capital assets	8,015,926	3,776	-	8,019,702
Accumulated depreciation	(4,028,366)	(140,504)	-	(4,168,870)
Net capital assets being depreciated	3,987,560	(136,728)	-	3,850,832
Sewer Fund, capital assets, net	4,035,270	(136,728)	-	3,898,542
<i>Water Fund:</i>				
Nondepreciable capital assets:				
Land	1,966	-	-	1,966
Depreciable capital assets:				
Buildings and improvements	796,875	-	-	796,875
Utility system	2,585,239	32,069	-	2,617,308
Machinery and equipment	36,460	3,776	-	40,236
Subtotal depreciable capital assets	3,418,574	35,845	-	3,454,419
Accumulated depreciation	(1,508,714)	(67,912)	-	(1,576,626)
Net capital assets being depreciated	1,909,860	(32,067)	-	1,877,793
Water Fund, capital assets, net	1,911,826	(32,067)	-	1,879,759

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

	<i>October 1, 2006</i>	<i>Additions</i>	<i>Disposals/ Retirements</i>	<i>September 30, 2007</i>
<b>Business-type Activities, continued:</b>				
<i>DART Fund:</i>				
Depreciable capital assets:				
Furniture and equipment	7,893	-	-	7,893
Vehicles	<u>146,637</u>	<u>-</u>	<u>-</u>	<u>146,637</u>
Subtotal depreciable capital assets	154,530	-	-	154,530
Accumulated depreciation	<u>(139,226)</u>	<u>(15,236)</u>	<u>-</u>	<u>(154,462)</u>
DART Fund, capital assets, net	<u>15,304</u>	<u>(15,236)</u>	<u>-</u>	<u>68</u>
Business-type Activities, capital assets, net	<u>\$ 8,888,536</u>	<u>\$ (320,913)</u>	<u>\$ -</u>	<u>\$ 8,567,623</u>

Depreciation expense was charged to programs of the primary government as follows:

**Governmental Activities:**

General government	\$ 51,231
Public safety	21,728
Public works	242,314
Recreation and culture	<u>6,507</u>
Total Governmental Activities	<u>\$ 321,780</u>

**Business-type Activities:**

Electric	\$ 180,527
Sewer	140,504
Water	67,912
DART	<u>15,236</u>
Total Business-type Activities	<u>\$ 404,179</u>

# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

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### NOTE 6: DEFERRED REVENUE

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Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<b>Primary Government:</b>		
Loans	\$ 83,433	\$ -
Delinquent personal property taxes	7,275	
Program revenue received prior to meeting eligibility requirements	-	67,836
Property taxes collected in advance on 2007 levy	<u>-</u>	<u>1,572,686</u>
 Total	 <u>\$ 90,708</u>	 <u>\$ 1,640,522</u>
 <b>Component Units:</b>		
Loans	\$ 55,904	\$ -
Property taxes collected in advance on 2007 levy	<u>-</u>	<u>77,843</u>
Total	<u>\$ 55,904</u>	<u>\$ 77,843</u>

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### NOTE 7: LONG-TERM LIABILITIES

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The City may issue bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.



# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

Long-term obligation activity for the year ended September 30, 2007 is summarized as follows:

	<i>Principal Maturity Ranges</i>	<i>October 1, 2006</i>	<i>Additions (Reductions)</i>	<i>September 30, 2007</i>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
General Obligation Limited Tax Bond - 1997 Building Authority Bonds for \$1,600,000, at 4.7-5.4% interest; Maturing through August 1, 2017	\$75,000-130,000	\$ 1,085,000	\$ (75,000)	\$ 1,010,000	\$ 75,000
2000 Installment Purchase - Land for \$500,000, at 7.0% interest; Maturing through December 1, 2015	33,079-49,642	342,605	(30,915)	311,690	33,079
2001 Promissory Note - Land Contract for \$800,000, at 8.0% interest Maturing through December 1, 2029	13,040-69,580	781,106	(12,041)	769,065	13,040
2001 Michigan Strategic Grant/Loan For \$400,000, at 0% interest; Maturing through May 1, 2011	25,383-25,384	364,015	(160,947)	203,068	25,383
2005 Promissory Note - Land Contract for \$90,000, at 8.5% interest Maturing through June 15, 2023	2,550-15,664	90,000	(2,350)	87,650	2,550
Compensated absences		<u>431,537</u>	<u>(39,159)</u>	<u>392,378</u>	<u>-</u>
Total Governmental Activities		<u>\$ 3,094,263</u>	<u>\$ (320,412)</u>	<u>\$ 2,773,851</u>	<u>\$ 149,052</u>

During the current year the 2001 Michigan Strategic Grant/Loan balance was reduced by \$ 121,935 by the State of Michigan. The State retroactively applied prior years interest payments against the principal balance. This reduction in debt was recorded as revenue in the current year.

	<i>Principal Maturity Ranges</i>	<i>October 1, 2006</i>	<i>Additions (Reductions)</i>	<i>September 30, 2007</i>	<i>Due Within One Year</i>
<b>Business-type Activities:</b>					
2000 Revenue bonds - 2000 Water and Sewer for \$1,955,000 (66.6513% Sewer; 33.3487% Water) at 4.85 to 5.65% interest; Maturing through 2021	\$75,000-165,000	\$ 1,655,000	\$ (70,000)	\$ 1,585,000	\$ 75,000
Compensated absences		<u>109,367</u>	<u>(24,711)</u>	<u>84,656</u>	<u>-</u>
Total Business-type Activities		<u>\$ 1,764,367</u>	<u>\$ (94,711)</u>	<u>\$ 1,669,656</u>	<u>\$ 75,000</u>

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

	<i>Principal Maturity Ranges</i>	<i>October 1, 2006</i>	<i>Additions (Reductions)</i>	<i>September 30, 2007</i>	<i>Due Within One Year</i>
<b>Component Units:</b>					
1994 DDA General obligation bonds - for \$620,000 at 5.65 to 6.00% interest; Maturing through 2010	\$55,000-65,000	\$ 230,000	\$ (50,000)	\$ 180,000	\$ 55,000
1997 DDA Limited Tax General obligation bonds for \$510,000 at 5.40 to 5.80% interest; Maturing through 2010	50,000-55,000	200,000	(45,000)	155,000	50,000
2007 Brownfield Development Authority Limited Tax General obligation bonds for \$810,000 at 3.85 to 4.59% interest; Maturing through 2028	25,000-60,000	-	810,000	810,000	25,000
Compensated absences		19,677	1,479	21,156	-
Total Component Units		<u>\$ 449,677</u>	<u>\$ 716,479</u>	<u>\$ 1,166,156</u>	<u>\$ 130,000</u>

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<i>Year Ended September 30,</i>	<i>Primary Government</i>					
	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 149,052	\$ 141,235	\$ 290,287	\$ 75,000	\$ 82,753	\$ 157,753
2009	157,667	133,783	291,450	80,000	78,935	158,935
2010	166,552	125,751	292,303	85,000	74,830	159,830
2011	175,728	117,112	292,840	90,000	70,455	160,455
2012	185,216	107,836	293,052	95,000	65,783	160,783
2013-2017	919,991	380,581	1,300,572	560,000	246,116	806,116
2018-2022	204,988	215,482	420,470	600,000	70,198	670,198
2023-2027	270,171	117,295	387,466	-	-	-
2028-2030	152,108	14,604	166,712	-	-	-
	<u>\$ 2,381,473</u>	<u>\$ 1,353,679</u>	<u>\$ 3,735,152</u>	<u>\$ 1,585,000</u>	<u>\$ 689,070</u>	<u>\$ 2,274,070</u>

  

<i>Year Ended September 30,</i>	<i>Component Units</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 105,000	\$ 54,867	\$ 159,867
2009	135,000	45,831	180,831
2010	150,000	38,246	188,246
2011	30,000	31,906	61,906
2012	30,000	30,707	60,707
2013-2017	170,000	134,331	304,331
2018-2022	210,000	96,319	306,319
2023-2027	255,000	47,688	302,688
2028	60,000	2,625	62,625
	<u>\$ 1,145,000</u>	<u>\$ 482,520</u>	<u>\$ 1,627,520</u>

# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

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### NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Component Units</i>
<b>Receivables:</b>			
Property taxes	\$ 241,388	\$ -	\$ -
Accounts	57,751	1,357,448	3,959
Notes	92,023	-	55,904
Accrued interest	53,804	34,683	-
Intergovernmental	287,881	49,247	-
Due from primary government	-	-	77,843
Advance to component unit	-	240,146	-
	<hr/>	<hr/>	<hr/>
Total receivables	<u>\$ 732,847</u>	<u>\$ 1,681,524</u>	<u>\$ 137,706</u>
<b>Accounts payable and accrued expenses:</b>			
Accounts	\$ 81,732	\$ 468,496	\$ 53
Payroll and related liabilities	42,587	28,751	2,207
Accrued interest	29,147	28,197	25,125
Intergovernmental	-	468	-
Due to component unit	77,843	-	-
Deposits payable	1,975	67,675	-
Advance from primary government	-	-	240,146
	<hr/>	<hr/>	<hr/>
Total accounts payable and accrued expenses	<u>\$ 233,284</u>	<u>\$ 593,587</u>	<u>\$ 267,531</u>

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### NOTE 9 – FEDERAL GRANTS

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During the year ended September 30, 2007, the City received and expended \$1,072,000 of Federal funds for contracted projects and \$ 51,847 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out. The City would be subject to single audit requirements if they expended \$ 500,000 or more for negotiated projects.

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### NOTE 10: INTERFUND BALANCES AND TRANSFERS

At September 30, 2007, there were no interfund receivables and payables.

The composition of interfund transfers at September 30, 2007 is as follows reported in the fund financial statements:

<u>Transfer To</u>	<u>Transfer from</u>								<u>Totals</u>
	<u>General Fund</u>	<u>Major Street</u>	<u>MSHDA Housing Resource</u>	<u>Depot</u>	<u>Capital Projects</u>	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	
General fund	\$ -	\$ -	\$ 4,829	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,829
Nonmajor Governmental									
Major Street	109,827	-	-	-	-	-	-	-	109,827
Local Street	17,500	24,000	-	-	-	-	-	-	41,500
Park	35,199	-	-	-	-	-	-	-	35,199
Sidewalk replacement	5,000	-	-	-	-	-	-	-	5,000
Industrial development	-	-	-	-	-	-	-	80,739	80,739
Police Athletic League	-	-	-	-	-	-	-	19,000	19,000
Municipal Facilities	8,248	-	-	4,000	-	-	-	-	12,248
Debt Service	56,063	-	-	-	-	15,833	5,580	52,299	129,775
Sewer	-	55,262	-	-	-	-	-	-	55,262
Water	-	-	-	-	-	52,212	-	-	52,212
Electric	-	-	-	-	13,701	-	-	-	13,701
Internal Service	192,821	-	-	-	-	-	-	-	192,821
	<u>\$424,658</u>	<u>\$ 79,262</u>	<u>\$ 4,829</u>	<u>\$ 4,000</u>	<u>\$ 13,701</u>	<u>\$ 68,045</u>	<u>\$ 5,580</u>	<u>\$152,038</u>	<u>\$752,113</u>

Interfund transfers reported in the government-wide statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Business-type activities	Governmental activities	<u>\$ 104,488</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

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### NOTE 11: RISK MANAGEMENT

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The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City manages its general liability, property, and auto risk/insurance by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing insurance coverage to its participating members. The City pays premiums to the Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk/insurance by participating in the Michigan Municipal League (MML), a public entity pool providing insurance coverage to its participating members. The City pays premiums to MML for the insurance coverage. The MML is self-sustaining through member premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its health and dental insurance by purchasing high deductible insurance from Blue Cross/Blue Shield and self-insuring the higher deductibles and prescription costs.

The City obtains its other insurance coverage through a commercial insurance company.

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### NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

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#### **Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):**

**Plan Description** – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended September 30, 2007 were as follows:

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

<i>Valuation Division</i>	<i>Provision</i>	<i>Employer Contribution Rate</i>	<i>Employee Contribution Rate</i>
General - Non-Union	B-2	5.45%	6.89%
Police	B-4	7.37%	8.65%
Fire	B-4	10.67%	9.17%
General Public Work	B-4	12.41%	8.11%
Department Heads	B-4	18.47%	6.51%
Police Sergeants	B-4	12.80%	8.20%

**Annual Pension Costs** – For year ended September 30, 2007, the City's annual pension cost of \$279,482 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30, follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual pension cost	\$ 279,482	\$ 279,473	\$ 292,308
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

### Post Employment – Retiree Health Insurance Benefits:

The City has established a postemployment hospitalization insurance plan for employees retiring after October 1, 1984 who: (a) receive benefits under the City Retirement Plan; or (b) have attained age sixty (60) years but do not qualify to receive benefits under the City Retirement Plan although they have been employed by the City for a minimum of five (5) years. The plan currently covers 69 active employees and 15 retired employees.

The obligation to pay postemployment hospitalization insurance premium was established by the City Council. The obligation requires that the City reimburse any eligible employee an amount equal to 50% of any premium attributable to the employee only or up to a maximum of \$200 per month for all employees except police retirees who are reimbursed a maximum of \$275 per month until age 65 and then \$200 thereafter.

The City has chosen to advance-fund this obligation based on an actuarial valuation at October 1, 2005 (latest available report). Significant actuarial assumptions used include: (a) a rate of return on investment of 8% per year compounded annually, (b) projected salary increases of 4.5% per year.

The required contribution, for retire health insurance funding, for the year ended September 30, 2007 is \$55,188 and a contribution of \$55,188 has been made by the City.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

The amount of net assets available in the Retiree Health Insurance Fund, a fiduciary fund, at September 30, 2007 is \$306,083. The amount of unfunded accrued liability at September 30, 2007, including the employee's share of the premium cost, is estimated to be approximately \$1,227,928 based on the latest available actuarial valuation (as of October 1, 2005).

**Upcoming Reporting Change** – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than the time the health care benefits are paid. The new pronouncement is effective for the year beginning October 1, 2009.

### **Deferred Compensation Plan:**

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

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### **NOTE 13: FUND EQUITY**

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Specific reservations on fund equity include:

***Reserved for prepaid expenditures*** – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

***Reserved for nonexpendable cemetery principal*** – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

***Designated for Rudolphi Wildlife*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for Justice Training Funds*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for Girl Power*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

### NOTE 14: COMPONENT UNITS REPORTING

A condensed Statement of Net Assets as September 30, 2007, and the Statement of Activities for the year then ended for each of the discretely presented component units follows:

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>STATEMENT OF NET ASSETS:</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,090	\$ 10,516	\$ 36,948	\$ 52,554
Accounts receivable	-	3,959	-	3,959
Notes receivable	-	55,904	-	55,904
Due from primary government	19,272	58,571	-	77,843
Prepaid expenditures	-	767	-	767
Land held for development	451,769	-	-	451,769
Total assets	476,131	129,717	36,948	642,796
<b>Liabilities:</b>				
Accounts payable	-	53	-	53
Accrued expenses	-	10,343	16,989	27,332
Advance from primary unit	240,146	-	-	240,146
Deferred Revenue	19,272	58,571	-	77,843
<b>Long-term liabilities</b>				
Due within one year	-	105,000	-	105,000
Due in more than one year	-	251,156	810,000	1,061,156
Total liabilities	259,418	425,123	826,989	1,511,530
<b>Net assets:</b>				
Unrestricted	\$ 216,713	\$ (295,406)	\$ (790,041)	\$ (868,734)
<b>STATEMENT OF ACTIVITIES:</b>				
Expenses - Community and economic development	\$ 13,067	\$ 161,981	\$ 795,819	\$ 970,867
<b>Program revenues:</b>				
Charges for services	92	36,792	-	36,884
Contribution from City	-	67,000	-	67,000
Net expenses (revenues)	(12,975)	(58,189)	(795,819)	(866,983)
<b>General revenues:</b>				
Property taxes captured	41,903	148,306	-	190,209
Unrestricted investment earnings	8	4,760	5,778	10,546
Total general revenues	41,911	153,066	5,778	200,755
Change in net assets	28,936	94,877	(790,041)	(666,228)
Net assets, beginning of year	187,777	(390,283)	-	(202,506)
Net assets, end of year	\$ 216,713	\$ (295,406)	\$ (790,041)	\$ (868,734)



***REQUIRED SUPPLEMENTAL INFORMATION***

## SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended September 30, 2007

<i>Actuarial Valuation Date</i>	<i>12/31/06</i>	<i>12/31/05</i>	<i>12/31/04</i>
Actuarial Value of Assets	\$ 8,178,435	\$ 7,838,569	\$ 7,231,290
Actuarial Accrued Liability (AAL)	14,140,852	13,496,922	11,417,684
Unfunded AAL (UAAL)	5,962,417	5,658,353	4,186,394
Funded Ratio	58%	58%	63%
Covered Payroll	2,399,160	2,362,575	2,718,932
UAAL as a percentage of covered payroll	249%	239%	154%

# CITY OF DOWAGIAC

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2007

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
<b>Revenues:</b>				
Property taxes	\$ 1,668,106	\$ 1,682,252	\$ 1,682,554	\$ 302
Licenses and permits	88,140	87,840	95,713	7,873
Federal grants	-	1,072,000	1,072,000	-
State grants	783,007	1,001,503	1,004,383	2,880
Contributions from other units	257,124	273,350	285,236	11,886
Charges for services	555,735	547,867	550,311	2,444
Fines and forfeits	7,100	8,300	10,022	1,722
Interest and rents	83,510	117,500	157,343	39,843
Other revenue	34,950	74,399	65,937	(8,462)
Total revenues	<u>3,477,672</u>	<u>4,865,011</u>	<u>4,923,499</u>	<u>58,488</u>
<b>Expenditures:</b>				
Current				
General government	915,139	1,021,074	1,010,895	(10,179)
Public safety	1,293,891	1,595,520	1,587,191	(8,329)
Public works	51,751	77,674	77,338	(336)
Other	921,212	518,233	518,115	(118)
Capital outlay	<u>26,321</u>	<u>1,324,933</u>	<u>1,323,943</u>	<u>(990)</u>
Total expenditures	<u>3,208,314</u>	<u>4,537,434</u>	<u>4,517,482</u>	<u>(19,952)</u>
Excess (deficiency) of revenues over expenditures	<u>269,358</u>	<u>327,577</u>	<u>406,017</u>	<u>78,440</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	4,829	4,829
Transfers out	<u>(290,412)</u>	<u>(424,658)</u>	<u>(424,658)</u>	<u>-</u>
Total other financing sources (uses)	<u>(290,412)</u>	<u>(424,658)</u>	<u>(419,829)</u>	<u>4,829</u>
Net change in fund balance	(21,054)	(97,081)	(13,812)	83,269
Fund balance, beginning of year	<u>714,974</u>	<u>714,974</u>	<u>714,974</u>	<u>-</u>
Fund balance, end of year	<u>\$ 693,920</u>	<u>\$ 617,893</u>	<u>\$ 701,162</u>	<u>\$ 83,269</u>

***OTHER SUPPLEMENTAL INFORMATION***

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF REVENUES

Year Ended September 30, 2007

***Current Taxes:***

Property taxes	\$ 1,300,920
Penalties and interest on taxes	8,848
Administration fees	60,047
Payment in lieu of taxes	312,739
	<u>1,682,554</u>

***Licenses and permits:***

Business licenses and permits	100
Nonbusiness licenses and permits	54,552
CATV franchise fees	41,061
	<u>95,713</u>

***Federal grants:***

Airport	<u>1,072,000</u>
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***State Grants:***

Liquor license fees	4,510
State revenue sharing - sales tax	747,409
Airport	234,500
Police	17,964
	<u>1,004,383</u>

***Contribution from other units:***

Contributions from county	192,565
Fire protection fees	79,644
Contributions from school districts	2,571
Administration fees from Downtown Development Authority	10,456
	<u>285,236</u>

***Charges for services:***

Recreation fees	42,437
Cemetery fees	32,807
Police services and reports	2,562
Airport fees	23,208
Other	750
Charges to other funds	448,547
	<u>550,311</u>

***Fines and forfeits:***

Ordinance fines	1,394
Other	8,628
	<u>10,022</u>

***Interest and rents:***

Interest	132,455
Rents	24,888
	<u>157,343</u>

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF REVENUES, continued

Year Ended September 30, 2007

**Other Revenue:**

Cemetery lots/perpetual care	11,380
Contributions and donations	4,250
Reimbursements	717
Refunds and rebates	38,157
Other	11,433
	<u>65,937</u>

Total revenues	4,923,499
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**Other Financing Sources:**

Transfers from other funds	<u>4,829</u>
Total revenues and other financing sources	<u><u>\$ 4,928,328</u></u>

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES

Year Ended September 30, 2007

#### *General Government:*

##### *Council:*

Personnel	\$ 8,175
Fringe benefits	625
Contracted services	2,395
Dues and memberships	1,447
Education and training	12,816
Other	1,483
	<u>26,941</u>

##### *Manager:*

Personnel	193,953
Fringe benefits	44,030
Supplies	939
Contracted services	1,641
Telephone	486
Dues and memberships	989
Education and training	3,709
Other	824
	<u>246,571</u>

##### *Accounting/Finance/Treasurer:*

Personnel	171,943
Fringe benefits	37,239
Supplies	1,086
Contracted services	17,113
Dues and memberships	331
Education and training	373
Other	258
	<u>228,343</u>

##### *Clerk:*

Personnel	73,150
Fringe benefits	7,639
Contracted services	2,410
Dues and memberships	696
Education and training	1,454
Printing and publications	3,090
Other	15
	<u>88,454</u>

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2007

#### *General Government, continued:*

##### *Assessor:*

Personnel	12,962
Fringe benefits	1,735
Supplies	1,155
Contracted services	26,810
Telephone	319
Dues and memberships	1,325
Education and training	241
	<hr/>
	44,547

##### *Elections:*

Personnel	2,800
Supplies	266
Printing and publications	706
Repairs and maintenance	7
	<hr/>
	3,779

##### *Building and Grounds:*

Personnel	161,244
Fringe benefits	22,303
Supplies	34,543
Contracted services	33,059
Telephone	4,460
Education and training	185
Utilities	36,150
Repairs and maintenance	12,693
Equipment rental	28,280
Other	884
	<hr/>
	333,801

##### *Attorney:*

Contracted services	38,459
	<hr/>
Total general government	1,010,895

#### *Public Safety:*

##### *Police:*

Personnel	925,372
Fringe benefits	161,579
Supplies	19,626
Contracted services	7,019
Telephone	5,932
Education and training	17,506
Printing and publications	1,627
Other	1,287
	<hr/>
	1,139,948



# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2007

***Public Safety, continued:***

***Fire:***

Personnel	232,270
Fringe benefits	30,359
Supplies	6,982
Telephone	1,293
Education and training	3,960
Utilities	14,793
Repairs and maintenance	5,545
Other	1,334
	<u>296,536</u>

***Building Inspection Department:***

Personnel	91,417
Fringe benefits	22,231
Supplies	1,332
Contracted services	31,581
Telephone	1,929
Dues and memberships	574
Education and training	1,143
Printing and publications	101
Repairs and maintenance	244
Other	155
	<u>150,707</u>

Total public safety	<u>1,587,191</u>
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***Public Works:***

***Sidewalks:***

Personnel	4,499
Fringe benefits	776
Repairs and maintenance	7,476
	<u>12,751</u>

***Airport:***

Personnel	13,219
Fringe benefits	1,065
Supplies	31,496
Contracted services	5,720
Telephone	1,048
Insurance	8,250
Utilities	3,318
Other	471
	<u>64,587</u>

Total public works	<u>77,338</u>
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# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2007

***Other:***

Insurance and bonds	47,174
Employee benefits	443,790
Workers' compensation insurance	<u>27,151</u>
Total other	<u>518,115</u>

***Capital Outlay:***

General government	1,315,089
Public safety	<u>8,854</u>
Total capital outlay	<u>1,323,943</u>
Total expenditures	<u>4,517,482</u>

**Other Financing Uses:**

Transfers to other funds	<u>424,658</u>
Total other financing uses	<u>424,658</u>
Total expenditures and other financing uses	<u><u>\$ 4,942,140</u></u>

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

September 30, 2007

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>	<i>Industrial Development Fund</i>
<b>Assets:</b>						
Cash and cash equivalents	\$ (32,494)	\$ 17,191	\$ 15,959	\$ 2,502	\$ 2,402	\$ 82,281
Investments	79,369	29,666	-	-	79,443	-
Accounts receivable	75	-	-	-	-	-
Notes receivable	-	-	-	-	-	5,248
Accrued interest receivable	479	326	-	-	764	-
Due from other governmental units	56,478	20,070	-	-	-	-
Prepaid expenditures	2,716	2,801	-	-	1,671	-
Total assets	<u>\$ 106,623</u>	<u>\$ 70,054</u>	<u>\$ 15,959</u>	<u>\$ 2,502</u>	<u>\$ 84,280</u>	<u>\$ 87,529</u>
<b>Liabilities and Fund Balances:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 6,830	\$ 4,685	\$ -	\$ -	\$ 122	\$ -
Accrued expenses	634	645	-	-	1,087	-
Deferred revenue	-	-	-	-	-	5,248
Total liabilities	<u>7,464</u>	<u>5,330</u>	<u>-</u>	<u>-</u>	<u>1,209</u>	<u>5,248</u>
<b>Fund balances:</b>						
Reserved for:						
Prepaid expenditures	2,716	2,801	-	-	1,671	-
Debt service	-	-	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-	-
Unreserved:						
Special revenue funds	96,443	61,923	15,959	2,502	81,400	82,281
Capital projects fund	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total fund balances	<u>99,159</u>	<u>64,724</u>	<u>15,959</u>	<u>2,502</u>	<u>83,071</u>	<u>82,281</u>
Total liabilities and fund balances	<u>\$ 106,623</u>	<u>\$ 70,054</u>	<u>\$ 15,959</u>	<u>\$ 2,502</u>	<u>\$ 84,280</u>	<u>\$ 87,529</u>

*Special Revenue Funds*

<i>Streetscape Maintenance Fund</i>	<i>Police Athletic League Fund</i>	<i>MSC Rehabilitation Loan Repayment Fund</i>	<i>MSHDA Housing Resource Fund</i>	<i>Municipal Facilities/ Improvements Fund</i>	<i>City Drug Forfeiture Fund</i>	<i>County Drug Forfeiture Fund</i>	<i>Depot Fund</i>	<i>Subtotal Nonmajor Governmental Funds</i>
\$ 476	\$ 824	\$ 46,975	\$ -	\$ 143,703	\$ 14,066	\$ 16,202	\$ 15,165	\$ 325,252
-	-	-	-	386,590	-	-	20,000	595,068
-	-	-	-	4,450	-	-	-	4,525
-	-	45,113	-	-	-	-	-	50,361
-	-	-	-	2,830	-	-	147	4,546
-	-	-	-	2,207	-	-	-	78,755
-	-	-	-	-	-	-	-	7,188
<u>\$ 476</u>	<u>\$ 824</u>	<u>\$ 92,088</u>	<u>\$ -</u>	<u>\$ 539,780</u>	<u>\$ 14,066</u>	<u>\$ 16,202</u>	<u>\$ 35,312</u>	<u>\$ 1,065,695</u>
\$ -	\$ -	\$ -	\$ -	\$ 16,102	\$ -	\$ -	\$ 486	\$ 28,225
-	-	-	-	8	-	-	-	2,374
-	-	45,113	-	-	-	-	-	50,361
-	-	45,113	-	17,410	250	-	486	82,510
-	-	-	-	-	-	-	-	7,188
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
476	824	46,975	-	522,370	13,816	16,202	34,826	975,997
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>476</u>	<u>824</u>	<u>46,975</u>	<u>-</u>	<u>522,370</u>	<u>13,816</u>	<u>16,202</u>	<u>34,826</u>	<u>983,185</u>
<u>\$ 476</u>	<u>\$ 824</u>	<u>\$ 92,088</u>	<u>\$ -</u>	<u>\$ 539,780</u>	<u>\$ 14,066</u>	<u>\$ 16,202</u>	<u>\$ 35,312</u>	<u>\$ 1,065,695</u>

continued

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET, CONTINUED

Year Ended September 30, 2007

	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	<i>Permanent Funds</i>		
	<i>1997 Building Authority Bond Fund</i>	<i>M-51 South Commerical Development Fund</i>	<i>Health/ Dental Insurance Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<b>Assets:</b>					
Cash and cash equivalents	\$ 73,194	\$ 69,891	\$ 103,679	\$ 180,401	\$ 752,417
Investments	-	-	-	568,209	1,163,277
Accounts receivable	-	-	-	1,350	5,875
Notes receivable	-	33,072	-	-	83,433
Accrued interest receivable	-	-	-	4,406	8,952
Due from other governmental units	-	-	-	-	78,755
Prepaid expenditures	-	-	-	-	7,188
Total assets	<u>\$ 73,194</u>	<u>\$ 102,963</u>	<u>\$ 103,679</u>	<u>\$ 754,366</u>	<u>\$ 2,099,897</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 28,225
Accrued expenses	-	-	-	-	2,374
Deferred revenue	-	33,072	26,312	-	109,745
Total liabilities	<u>-</u>	<u>33,072</u>	<u>26,312</u>	<u>-</u>	<u>141,894</u>
<b>Fund balances:</b>					
Reserved for:					
Prepaid expenditures	-	-	-	-	7,188
Debt service	73,194	-	-	-	73,194
Nonexpendable cemetery principal	-	-	-	754,366	754,366
Unreserved:					
Special revenue funds	-	-	-	-	975,997
Capital projects fund	-	69,891	-	-	69,891
Permanent fund	-	-	77,367	-	77,367
Total fund balances	<u>73,194</u>	<u>69,891</u>	<u>77,367</u>	<u>754,366</u>	<u>1,958,003</u>
Total liabilities and fund balances	<u>\$ 73,194</u>	<u>\$ 102,963</u>	<u>\$ 103,679</u>	<u>\$ 754,366</u>	<u>\$ 2,099,897</u>

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2007

	<i>Special Revenue Funds</i>					
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>	<i>Industrial Development Fund</i>
<b>Revenues:</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 128,714	\$ -
Federal grants	-	-	-	-	-	-
State grants	344,921	139,439	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interest and rents	7,537	2,562	-	19	10,058	498
Other revenue	196	-	-	422	-	15,537
Total revenues	<u>352,654</u>	<u>142,001</u>	<u>-</u>	<u>441</u>	<u>138,772</u>	<u>16,035</u>
<b>Expenditures:</b>						
Current						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	313,428	186,877	-	10,694	144,236	-
Community and economic development	-	-	-	-	-	320
Recreation and culture	-	-	19,354	-	-	-
Other	-	-	-	-	-	-
Capital outlay	-	-	38,225	-	-	-
Debt service						
Principal	-	-	-	-	-	51,053
Interest and fees	-	-	-	-	-	62,493
Total expenditures	<u>313,428</u>	<u>186,877</u>	<u>57,579</u>	<u>10,694</u>	<u>144,236</u>	<u>113,866</u>
Excess (deficiency) of revenues over expenditures	<u>39,226</u>	<u>(44,876)</u>	<u>(57,579)</u>	<u>(10,253)</u>	<u>(5,464)</u>	<u>(97,831)</u>
<b>Other financing sources (uses):</b>						
Transfers in	109,827	41,500	35,199	5,000	-	80,739
Transfers out	(79,262)	-	-	-	-	-
Total other financing sources (uses)	<u>30,565</u>	<u>41,500</u>	<u>35,199</u>	<u>5,000</u>	<u>-</u>	<u>80,739</u>
Net change in fund balance	69,791	(3,376)	(22,380)	(5,253)	(5,464)	(17,092)
Fund balances, beginning of year	<u>29,368</u>	<u>68,100</u>	<u>38,339</u>	<u>7,755</u>	<u>88,535</u>	<u>99,373</u>
Fund balances, end of year	<u>\$ 99,159</u>	<u>\$ 64,724</u>	<u>\$ 15,959</u>	<u>\$ 2,502</u>	<u>\$ 83,071</u>	<u>\$ 82,281</u>

<i>Special Revenue Funds</i>								
<i>Streetscape Maintenance Fund</i>	<i>Police Athletic League Fund</i>	<i>MSC Rehabilitation Loan Repayment Fund</i>	<i>MSHDA Housing Resource Fund</i>	<i>Municipal Facilities/ Improvements Fund</i>	<i>City Drug Forfeiture Fund</i>	<i>County Drug Forfeiture Fund</i>	<i>Depot Fund</i>	<i>Subtotal Nonmajor Governmental Fund</i>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,714
-	-	-	5,000	-	-	-	-	5,000
-	-	-	-	-	-	-	-	484,360
-	273	-	-	-	-	-	-	273
-	-	-	-	-	3,802	25,669	-	29,471
1	44	48	-	103,483	-	-	8,401	132,651
745	270	7,700	-	268,952	-	-	6,035	299,857
746	587	7,748	5,000	372,435	3,802	25,669	14,436	1,080,326
-	-	-	-	97,453	-	-	-	97,453
-	19,047	-	-	-	2,187	9,564	-	30,798
1,043	-	-	-	-	-	-	9,190	665,468
-	-	13,499	5,000	-	-	-	-	18,819
-	-	-	-	-	-	-	-	19,354
-	-	-	-	-	-	-	-	-
-	-	-	-	151,630	-	-	-	189,855
-	-	-	-	2,350	-	-	-	53,403
-	-	-	-	7,650	-	-	-	70,143
1,043	19,047	13,499	5,000	259,083	2,187	9,564	9,190	1,145,293
(297)	(18,460)	(5,751)	-	113,352	1,615	16,105	5,246	(64,967)
-	19,000	-	-	12,248	-	-	-	303,513
-	-	-	(4,829)	-	-	-	(4,000)	(88,091)
-	19,000	-	(4,829)	12,248	-	-	(4,000)	215,422
(297)	540	(5,751)	(4,829)	125,600	1,615	16,105	1,246	150,455
773	284	52,726	4,829	396,770	12,201	97	33,580	832,730
\$ 476	\$ 824	\$ 46,975	\$ -	\$ 522,370	\$ 13,816	\$ 16,202	\$ 34,826	\$ 983,185

continued

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended September 30, 2007

	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	<i>Permanent Funds</i>		
	<i>1997 Building Authority Bond Fund</i>	<i>M-51 South Commerical Development Fund</i>	<i>Health/ Dental Insurance Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<b>Revenues:</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 128,714
Federal grants	-	-	-	-	5,000
State grants	-	-	-	-	484,360
Charges for services	-	-	1,050	-	1,323
Fines and forfeits	-	-	-	-	29,471
Interest and rents	2,149	959	2,096	37,505	175,360
Other revenue	-	2,695	302,649	10,313	615,514
Total revenues	2,149	3,654	305,795	47,818	1,439,742
<b>Expenditures:</b>					
Current					
General government	-	-	-	31,200	128,653
Public safety	-	-	-	-	30,798
Public works	-	-	-	-	665,468
Community and economic development	-	-	-	-	18,819
Recreation and culture	-	-	-	-	19,354
Other	-	-	228,428	-	228,428
Capital outlay	-	-	-	-	189,855
Debt service					
Principal	75,000	30,915	-	-	159,318
Interest and fees	54,775	23,982	-	-	148,900
Total expenditures	129,775	54,897	228,428	31,200	1,589,593
Excess (deficiency) of revenues over expenditures	(127,626)	(51,243)	77,367	16,618	(149,851)
<b>Other financing sources (uses):</b>					
Transfers in	129,775	-	-	-	433,288
Transfers out	-	(13,701)	-	-	(101,792)
Total other financing sources (uses)	129,775	(13,701)	-	-	331,496
Net change in fund balance	2,149	(64,944)	77,367	16,618	181,645
Fund balances, beginning of year	71,045	134,835	-	737,748	1,776,358
Fund balances, end of year	\$ 73,194	\$ 69,891	\$ 77,367	\$ 754,366	\$ 1,958,003



*PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS*  
**COMBINING STATEMENT OF NET ASSETS**

September 30, 2007

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Assets:</b>			
<b><i>Current assets:</i></b>			
Cash and cash equivalents	\$ 120,386	\$ (6,990)	\$ 113,396
Investments	813,077	25,000	838,077
Accounts receivable	7,383	-	7,383
Notes receivable	8,590	-	8,590
Accrued interest receivable	14,432	-	14,432
Due from other governmental units	509	-	509
Prepaid expenses	1,305	-	1,305
Total current assets	<u>965,682</u>	<u>18,010</u>	<u>983,692</u>
<b><i>Noncurrent assets:</i></b>			
Capital assets:			
Depreciable capital assets, net	<u>940,340</u>	<u>81,019</u>	<u>1,021,359</u>
Total noncurrent assets	<u>940,340</u>	<u>81,019</u>	<u>1,021,359</u>
Total assets	<u>1,906,022</u>	<u>99,029</u>	<u>2,005,051</u>
<b>Liabilities:</b>			
<b><i>Current liabilities:</i></b>			
Accounts payable	7,801	700	8,501
Accrued expenses	1,032	-	1,032
Total current liabilities	<u>8,833</u>	<u>700</u>	<u>9,533</u>
<b><i>Noncurrent liabilities:</i></b>			
Compensated absences payable	<u>5,780</u>	<u>-</u>	<u>5,780</u>
Total noncurrent liabilities	<u>5,780</u>	<u>-</u>	<u>5,780</u>
Total liabilities	<u>14,613</u>	<u>700</u>	<u>15,313</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	940,340	81,019	1,021,359
Unrestricted	<u>951,069</u>	<u>17,310</u>	<u>968,379</u>
Total net assets	<u>\$ 1,891,409</u>	<u>\$ 98,329</u>	<u>\$ 1,989,738</u>

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended September 30, 2007

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Operating revenues:</b>			
Equipment rental	\$ 387,759	\$ 49,882	\$ 437,641
Other	29,605	-	29,605
Total operating revenues	<u>417,364</u>	<u>49,882</u>	<u>467,246</u>
<b>Operating expenses:</b>			
Personnel	47,141	-	47,141
Fringe benefits	18,613	-	18,613
Supplies	95,893	7,965	103,858
Contracted services	4,876	17,824	22,700
Administrative expense	14,429	-	14,429
Insurance	29,219	-	29,219
Utilities	12,198	-	12,198
Repairs and maintenance	118,169	-	118,169
Equipment rental	3,645	-	3,645
Other services and supplies	972	3,676	4,648
Depreciation	214,236	22,429	236,665
Total operating expenses	<u>559,391</u>	<u>51,894</u>	<u>611,285</u>
Operating income (loss)	<u>(142,027)</u>	<u>(2,012)</u>	<u>(144,039)</u>
<b>Non-operating revenues (expenses):</b>			
Federal grants	16,808	-	16,808
Gain on sale of assets	4,195	-	4,195
Interest income	44,331	1,598	45,929
Total non-operating revenues (expenses)	<u>65,334</u>	<u>1,598</u>	<u>66,932</u>
Net income (loss) before operating transfers	<u>(76,693)</u>	<u>(414)</u>	<u>(77,107)</u>
<b>Operating transfers:</b>			
Transfer from other funds	<u>192,821</u>	<u>-</u>	<u>192,821</u>
Total operating transfers	<u>192,821</u>	<u>-</u>	<u>192,821</u>
Net income (loss)	116,128	(414)	115,714
Net assets, beginning of year	<u>1,775,281</u>	<u>98,743</u>	<u>1,874,024</u>
Net assets, end of year	<u>\$ 1,891,409</u>	<u>\$ 98,329</u>	<u>\$ 1,989,738</u>

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ (4,159)	\$ 50,520	\$ 46,361
Cash received for interfund services	417,364	-	417,364
Cash payments for interfund services	(18,074)	-	(18,074)
Cash payments to employees	(44,934)	-	(44,934)
Cash payments to suppliers for goods and services	(291,714)	(28,765)	(320,479)
Net cash provided (used) by operating activities	<u>58,483</u>	<u>21,755</u>	<u>80,238</u>
<b>Cash flows from non-capital financing activities:</b>			
Operating transfers in	<u>192,821</u>	<u>-</u>	<u>192,821</u>
<b>Cash flows from capital and related financing activities:</b>			
Federal grant	16,808	-	16,808
Proceeds from sale of assets	4,195	-	4,195
Acquisition and construction of capital assets	(192,020)	(4,747)	(196,767)
Net cash provided by capital and related financing activities	<u>(171,017)</u>	<u>(4,747)</u>	<u>(175,764)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>44,331</u>	<u>1,598</u>	<u>45,929</u>
Net increase (decrease) in cash and cash equivalents	124,618	18,606	143,224
Cash, cash equivalents, and investments, beginning of year	<u>808,845</u>	<u>(596)</u>	<u>808,249</u>
Cash, cash equivalents, and investments, end of year	<u>\$ 933,463</u>	<u>\$ 18,010</u>	<u>\$ 951,473</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (142,027)	\$ (2,012)	\$ (144,039)
Adjustments:			
Depreciation	214,236	22,429	236,665
Change in assets and liabilities:			
Accounts receivable	743	-	743
Notes receivable	1,984	-	1,984
Accrued interest receivable	(6,868)	638	(6,230)
Due from other governmental units	(18)	-	(18)
Prepaid expenses	(233)	-	(233)
Accounts payable	(11,683)	700	(10,983)
Accrued expenses	142	-	142
Compensated absences payable	<u>2,207</u>	<u>-</u>	<u>2,207</u>
Net cash provided (used) by operating activities	<u>\$ 58,483</u>	<u>\$ 21,755</u>	<u>\$ 80,238</u>

*COMPONENT UNITS*  
**COMBINING BALANCE SHEET**  
Year Ended September 30, 2007

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,090	\$ 10,516	\$ 36,948	\$ 52,554
Accounts receivable	-	3,959	-	3,959
Notes receivable	-	55,904	-	55,904
Due from primary government	19,272	58,571	-	77,843
Prepaid expenditures	-	767	-	767
Land held for development	451,769	-	-	451,769
Total assets	<u>\$ 476,131</u>	<u>\$ 129,717</u>	<u>\$ 36,948</u>	<u>\$ 642,796</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 53	\$ -	\$ 53
Accrued expenses	-	2,207	-	2,207
Advance from primary government	240,146	-	-	240,146
Deferred revenue	19,272	114,475	-	133,747
Total liabilities	<u>259,418</u>	<u>116,735</u>	<u>-</u>	<u>376,153</u>
<b>Fund Balances:</b>				
Reserved for:				
Prepaid expenditures	-	767	-	767
Unreserved	216,713	12,215	36,948	265,876
Total fund balances	<u>216,713</u>	<u>12,982</u>	<u>36,948</u>	<u>266,643</u>
Total liabilities and fund balances	<u>\$ 476,131</u>	<u>\$ 129,717</u>	<u>\$ 36,948</u>	<u>\$ 642,796</u>

COMPONENT UNITS

**RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL  
FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

Year Ended September 30, 2007

<b>Total fund balances for governmental funds</b>		\$	266,643
Total net assets reported for governmental activities in the statement of of net assets is different because:			
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.			
			(25,125)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.			
Loans			55,904
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:			
Bonds payable	(1,145,000)		
Compensated absences payable	<u>(21,156)</u>		<u>(1,166,156)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>(868,734)</u></u>

*COMPONENT UNITS*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES**

Year Ended September 30, 2007

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>Revenues:</b>				
Property taxes	\$ 41,903	\$ 148,306	\$ -	\$ 190,209
Interest and rents	8	4,760	5,778	10,546
Other revenue	92	106,788	-	106,880
Total revenues	<u>42,003</u>	<u>259,854</u>	<u>5,778</u>	<u>307,635</u>
<b>Expenditures:</b>				
Current				
Community and economic development	13,067	138,842	-	151,909
Capital outlay	-	-	778,830	778,830
Debt service				
Principal	-	95,000	-	95,000
Interest and fees	-	23,890	-	23,890
Total expenditures	<u>13,067</u>	<u>257,732</u>	<u>778,830</u>	<u>1,049,629</u>
Excess (deficiency) of revenues over expenditures	28,936	2,122	(773,052)	(741,994)
<b>Other financing sources (uses):</b>				
Proceeds from bonds	-	-	810,000	810,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>810,000</u>	<u>810,000</u>
Net change in fund balance	28,936	2,122	36,948	68,006
Fund balances, beginning of year	<u>187,777</u>	<u>10,860</u>	<u>-</u>	<u>198,637</u>
Fund balances, end of year	<u><u>\$ 216,713</u></u>	<u><u>\$ 12,982</u></u>	<u><u>\$ 36,948</u></u>	<u><u>\$ 266,643</u></u>

*COMPONENT UNITS*

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

Year Ended September 30, 2007

<b>Net change in Fund balances for the governmental funds</b>	<b>\$ 68,006</b>
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue in previous years.	
Notes proceeds	(2,996)
Contract proceeds are revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(810,000)
Repayments of principal on long-term obligations are expenditures in governmental but the payments reduce long-term liabilities in the statement of net assets.	95,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in compensated absences payable	(1,479)
Change in accrued interest on bonds and loans payable	(14,759)
	<u>(16,238)</u>
<b>Change in net assets of governmental activities</b>	<b>\$ <u>(666,228)</u></b>

*FIDUCIARY FUNDS*

**COMBINING STATEMENT OF CHANGES IN  
ASSETS AND LIABILITIES**

Year Ended September 30, 2007

	<i>October 1, 2006</i>	<i>Additions</i>	<i>Deductions</i>	<i>September 30, 2007</i>
<hr/> <i>County, School, and Library Tax Fund</i> <hr/>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 608,150	\$ 4,608,798	\$ 4,912,746	\$ 304,202
<b>Liabilities:</b>				
Undistributed property tax collections	\$ 608,150	\$ 4,608,798	\$ 4,912,746	\$ 304,202
<hr/> <i>Payroll Fund</i> <hr/>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 8,546	\$ 3,703,427	\$ 3,703,729	\$ 8,244
<b>Liabilities:</b>				
Accrued expenses	\$ 8,546	\$ 3,703,427	\$ 3,703,729	\$ 8,244
<hr/> <i>Fire Insurance Escrow Fund</i> <hr/>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 287	\$ 7,307	\$ -	\$ 7,594
<b>Liabilities:</b>				
Accounts payable	\$ 287	\$ 7,307	\$ -	\$ 7,594
<hr/> <i>FEMA Fire Grant Fund</i> <hr/>				
<b>Assets:</b>				
Cash and cash equivalents	\$ -	\$ 239,366	\$ 171,072	\$ 68,294
<b>Liabilities:</b>				
Undistributed grant proceeds	\$ -	\$ 239,366	\$ 171,072	\$ 68,294
<hr/> <i>Total Agency Funds</i> <hr/>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 616,983	\$ 8,558,898	\$ 8,787,547	\$ 388,334
<b>Liabilities:</b>				
Accounts payable	\$ 287	-	\$ -	\$ 7,594
Accrued expenses	8,546	3,703,427	3,703,729	8,244
Undistributed grant proceeds	-	239,366	171,072	68,294
Undistributed property tax collections	608,150	4,608,798	4,912,746	304,202
Total liabilities	\$ 616,983	\$ 8,551,591	\$ 8,787,547	\$ 388,334



# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2007

#### 1997 GENERAL OBLIGATION LIMITED TAX BUILDING AUTHORITY BONDS

Issue dated February 1, 1997 in the amount of	\$	1,600,000
Less:		
Principal paid in prior years		(515,000)
Principal paid in current year		<u>(75,000)</u>
Balance payable at September 30, 2007	\$	<u>1,010,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	4.90%	\$ 50,913	\$ 75,000	\$ 125,913
2009	5.00%	47,075	80,000	127,075
2010	5.05%	42,929	85,000	127,929
2011	5.15%	38,465	90,000	128,465
2012	5.20%	33,678	95,000	128,678
2013	5.25%	28,451	105,000	133,451
2014	5.30%	22,780	110,000	132,780
2015	5.30%	16,817	115,000	131,817
2016	5.40%	10,395	125,000	135,395
2017	5.40%	<u>3,509</u>	<u>130,000</u>	<u>133,509</u>
		<u>\$ 295,012</u>	<u>\$ 1,010,000</u>	<u>\$ 1,305,012</u>

Interest on the above is payable semi-annually at the indicated rate on August 1 and February 1.

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES SCHEDULE OF INDEBTEDNESS

September 30, 2007

### 2000 INSTALLMENT PURCHASE NOTE PAYABLE - LAND PURCHASE

Contract dated March 23, 2000 in the amount of	\$	500,000
Less:		
Principal paid in prior years		(157,395)
Principal paid in current year		<u>(30,915)</u>
Balance payable at September 30, 2007	\$	<u>311,690</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	7.00%	\$ 21,818	\$ 33,079	\$ 54,897
2009	7.00%	19,503	35,394	54,897
2010	7.00%	17,025	37,872	54,897
2011	7.00%	14,374	40,523	54,897
2012	7.00%	11,537	43,360	54,897
2013	7.00%	8,502	46,395	54,897
2014	7.00%	5,255	49,642	54,897
2015	7.00%	<u>1,780</u>	<u>25,425</u>	<u>27,205</u>
		<u>\$ 99,794</u>	<u>\$ 311,690</u>	<u>\$ 411,484</u>

Interest and principal is paid annually on December 1.

# CITY OF DOWAGIAC

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*GOVERNMENTAL ACTIVITIES*  
**SCHEDULE OF INDEBTEDNESS**  
September 30, 2007

**2001 PROMISSORY NOTE PAYABLE - LAND CONTRACT**

Contract dated December 14, 2001 in the amount o \$	800,000
Less:	
Principal paid in prior years	(18,894)
Principal paid in current year	<u>(12,041)</u>
Balance payable at September 30, 2007	<u>\$ 769,065</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	8.00%	\$ 61,054	\$ 13,040	\$ 74,094
2009	8.00%	59,971	14,123	74,094
2010	8.00%	58,799	15,295	74,094
2011	8.00%	57,530	16,564	74,094
2012	8.00%	56,155	17,939	74,094
2013	8.00%	54,666	19,428	74,094
2014	8.00%	53,053	21,041	74,094
2015	8.00%	51,307	22,787	74,094
2016	8.00%	49,416	24,678	74,094
2017	8.00%	47,367	26,727	74,094
2018	8.00%	45,149	28,945	74,094
2019	8.00%	42,746	31,348	74,094
2020	8.00%	40,145	33,949	74,094
2021	8.00%	37,327	36,767	74,094
2022	8.00%	34,275	39,819	74,094
2023	8.00%	30,970	43,124	74,094
2024	8.00%	27,391	46,703	74,094
2025	8.00%	23,515	50,579	74,094
2026	8.00%	19,317	54,777	74,094
2027	8.00%	14,770	59,324	74,094
2028	8.00%	9,846	64,248	74,094
2029	8.00%	4,514	69,580	74,094
2030	8.00%	<u>244</u>	<u>18,280</u>	<u>18,524</u>
		<u>\$ 879,527</u>	<u>\$ 769,065</u>	<u>\$ 1,648,592</u>

Interest and principal is paid monthly.

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2007

#### 2001 MICHIGAN STRATEGIC LOAN

Grant dated October 19, 2000 in the amount of	\$	400,000
Less:		
Principal paid in prior years		(157,920)
Principal paid in current year		<u>(39,012)</u>
Balance payable at September 30, 2007	\$	<u>203,068</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	0.00%	\$ -	\$ 25,383	\$ 25,383
2009	0.00%	-	25,384	25,384
2010	0.00%	-	25,383	25,383
2011	0.00%	-	25,384	25,384
2012	0.00%	-	25,383	25,383
2013	0.00%	-	25,384	25,384
2014	0.00%	-	25,383	25,383
2015	0.00%	-	25,384	25,384
		<u>\$ -</u>	<u>\$ 203,068</u>	<u>\$ 203,068</u>

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2007

#### 2005 PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated June 15, 2006 in the amount of	\$	90,000
Less:		
Principal paid in prior years		-
Principal paid in current year		<u>(2,350)</u>
Balance payable at September 30, 2007	\$	<u>87,650</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	8.50%	\$ 7,450	\$ 2,550	\$ 10,000
2009	8.50%	7,234	2,766	10,000
2010	8.50%	6,998	3,002	10,000
2011	8.50%	6,743	3,257	10,000
2012	8.50%	6,466	3,534	10,000
2013	8.50%	6,166	3,834	10,000
2014	8.50%	5,840	4,160	10,000
2015	8.50%	5,487	4,513	10,000
2016	8.50%	5,103	4,897	10,000
2017	8.50%	4,687	5,313	10,000
2018	8.50%	4,235	5,765	10,000
2019	8.50%	3,745	6,255	10,000
2020	8.50%	3,213	6,787	10,000
2021	8.50%	2,636	7,364	10,000
2022	8.50%	2,011	7,989	10,000
2023	8.50%	<u>1,332</u>	<u>15,664</u>	<u>16,996</u>
		<u>\$ 79,346</u>	<u>\$ 87,650</u>	<u>\$ 166,996</u>

Interest and principal is paid annually on June 15.

# CITY OF DOWAGIAC

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## *BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS*

### **SCHEDULE OF INDEBTEDNESS**

September 30, 2007

#### **2000 WATER and SEWER REVENUE BONDS**

Issue dated June 1, 2000 in the amount of	\$	1,955,000
Less:		
Principal paid in prior years		(300,000)
Principal paid in current year		<u>(70,000)</u>
Balance payable at September 30, 2007	\$	<u><u>1,585,000</u></u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	4.90%	\$ 82,753	\$ 75,000	\$ 157,753
2009	4.95%	78,935	80,000	158,935
2010	5.00%	74,830	85,000	159,830
2011	5.00%	70,455	90,000	160,455
2012	5.10%	65,783	95,000	160,783
2013	5.20%	60,760	100,000	160,760
2014	5.30%	55,378	105,000	160,378
2015	5.35%	49,653	110,000	159,653
2016	5.40%	43,470	120,000	163,470
2017	5.40%	36,855	125,000	161,855
2018	5.50%	29,768	135,000	164,768
2019	5.50%	22,068	145,000	167,068
2020	5.65%	13,701	155,000	168,701
2021	5.65%	4,661	165,000	169,661
		<u>\$ 689,070</u>	<u>\$ 1,585,000</u>	<u>\$ 2,274,070</u>

Interest on the above is payable semi-annually at the indicated rate on December 1 and June 1.

# CITY OF DOWAGIAC

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## COMPONENT UNITS

### SCHEDULE OF INDEBTEDNESS

September 30, 2007

#### 1994 DOWNTOWN DEVELOPMENT AUTHORITY GENERAL OBLIGATION BONDS

Issue dated July 1, 1994 in the amount of	\$	620,000
Less:		
Principal paid in prior years		(390,000)
Principal paid in current year		<u>(50,000)</u>
Balance payable at September 30, 2007	\$	<u>180,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	5.85%	\$ 9,079	\$ 55,000	\$ 64,079
2009	5.95%	5,685	60,000	65,685
2010	6.00%	<u>1,950</u>	<u>65,000</u>	<u>66,950</u>
		<u>\$ 16,714</u>	<u>\$ 180,000</u>	<u>\$ 196,714</u>

#### 1997 LIMITED TAX GENERAL OBLIGATION DOWNTOWN DEVELOPMENT BONDS

Issue dated April 1, 1997 in the amount of	\$	510,000
Less:		
Principal paid in prior years		(310,000)
Principal paid in current year		<u>(45,000)</u>
Balance payable at September 30, 2007	\$	<u>155,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2008	5.60%	\$ 8,840	\$ 50,000	\$ 58,840
2009	5.70%	6,040	50,000	56,040
2010	5.80%	<u>3,190</u>	<u>55,000</u>	<u>58,190</u>
		<u>\$ 18,070</u>	<u>\$ 155,000</u>	<u>\$ 173,070</u>

Interest on the above is payable semi-annually at the indicated rate on November 1 and May 1.

# CITY OF DOWAGIAC

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## COMPONENT UNITS

### SCHEDULE OF INDEBTEDNESS

September 30, 2007

#### 2007 BROWNFIELD REDEVELOPMENT AUTHORITY TAX INCREMENT BONDS

Issue dated April 1, 2007 in the amount of	\$	810,000
Less:		
Principal paid in prior years		-
Principal paid in current year		-
Balance payable at September 30, 2007	\$	<u>810,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2008		\$ 36,948	\$ -	\$ 36,948
2009	4.000%	34,106	25,000	59,106
2010	4.000%	33,106	30,000	63,106
2011	4.000%	31,906	30,000	61,906
2012	4.000%	30,707	30,000	60,707
2013	4.000%	29,506	30,000	59,506
2014	4.000%	28,306	35,000	63,306
2015	4.000%	26,906	35,000	61,906
2016	4.000%	25,507	35,000	60,507
2017	4.000%	24,106	35,000	59,106
2018	4.250%	22,706	40,000	62,706
2019	4.250%	21,006	40,000	61,006
2020	4.250%	19,307	40,000	59,307
2021	4.250%	17,606	45,000	62,606
2022	4.250%	15,694	45,000	60,694
2023	4.375%	13,781	45,000	58,781
2024	4.375%	11,813	50,000	61,813
2024	4.375%	9,625	50,000	59,625
2026	4.375%	7,438	55,000	62,438
2027	4.375%	5,031	55,000	60,031
2028	4.375%	2,625	60,000	62,625
		<u>\$ 447,736</u>	<u>\$ 810,000</u>	<u>\$ 1,257,736</u>

Interest on the above is payable semi-annually at the indicated rates on November 1 and May 1.



## *DART FUND*

### **SCHEDULE OF OPERATING REVENUES**

Year Ended September 30, 2007

**Operating revenues:**

Demand responses - fares	\$ 17,262
Other nontransportation revenues	<u>104</u>
Total operating revenues	<u>\$ 17,366</u>

# CITY OF DOWAGIAC

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## DART FUND

### SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2007

	<u>Operation</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<b>Labor:</b>				
Operators' salaries	\$ 36,757	\$ -	\$ -	\$ 36,757
Other salaries	-	5,847	18,324	24,171
Dispatcher	25,142	-	-	25,142
<b>Fringe benefits:</b>				
Other	43,009	447	1,310	44,766
Pension	3,496	-	-	3,496
<b>Services:</b>				
Advertising	-	-	45	45
Audit	-	-	2,057	2,057
City administration	-	11,098	-	11,098
Other services	-	3,369	-	3,369
<b>Materials and supplies consumed:</b>				
Fuels and lubricants	15,530	-	-	15,530
Tires and tubes	2,444	-	-	2,444
Other materials and supplies	242	4,114	-	4,356
<b>Utilities:</b>				
Telephone	1,042	-	-	1,042
<b>Insurance:</b>				
Casualty and liability insurance	3,089	-	343	3,432
<b>Rental:</b>				
Building/office	2,327	-	7,497	9,824
<b>Depreciation</b>	15,236	-	-	15,236
<b>Miscellaneous expenses:</b>				
Other	422	251	150	823
Total operating expenses	<u>\$ 148,736</u>	<u>\$ 25,126</u>	<u>\$ 29,726</u>	<u>\$ 203,588</u>

# CITY OF DOWAGIAC

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## *DART FUND*

### **SCHEDULE OF NON-OPERATING REVENUES**

Year Ended September 30, 2007

**Local revenues:**

City of Dowagiac - property taxes	\$ 45,963
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**State of Michigan operating grants:**

Formula operating assistance	70,862
Fiscal year 2004 reconciliation adjustment	1,038
Fiscal year 2005 reconciliation adjustment	2,176
Fiscal year 2006 reconciliation adjustment	2,586
	<u>76,662</u>

**Federal operating grant:**

Federal Section 5311 - operating assistance	28,917
Fiscal year 2004-2005 adjustment	1,130
	<u>30,047</u>

**Interest:**

Interest	<u>14,262</u>
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Total non-operating revenues	<u><u>\$ 166,934</u></u>
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*DART FUND***SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION  
OF GENERAL OPERATIONS**

Year Ended September 30, 2007

	<i>Federal Section 5311</i>	<i>State Operating Assistance</i>
<b>Expenses:</b>		
Labor	\$ 86,070	\$ 86,070
Fringe benefits	48,262	48,262
Services	16,569	16,569
Materials and supplies consumed	22,330	22,330
Telephone	1,042	1,042
Casualty and liability insurance	3,432	3,432
Building and office rental	9,824	9,824
Depreciation	15,236	15,236
Miscellaneous expenses	823	823
Total expenses	<u>203,588</u>	<u>203,588</u>
<b>Ineligible expenses:</b>		
Audit	(2,057)	-
Depreciation on assets purchased with federal and/or state funds	<u>(15,236)</u>	<u>(15,236)</u>
Total ineligible expenses	<u>(17,293)</u>	<u>(15,236)</u>
Net eligible expenses	<u>\$ 186,295</u>	<u>\$ 188,352</u>
Net deficit - Section 5311	<u>\$ 186,295</u>	
Eligible Section 5311 reimbursement (17.00%)	<u>\$ 31,670</u>	
Eligible for state operating assistance:		
Maximum state operating assistance:		
Lesser of 38.6208% of expenses eligible for state operating assistance or the City's prorated share of available funds.		
38.6208% of eligible expenses		<u>\$ 72,743</u>
But at least a minimum of its 1997 floor of		<u>\$ 55,299</u>

## *DART FUND*

### **SCHEDULE OF DETAIL OF INELIGIBLE EXPENSES**

Year Ended September 30, 2007

	<u><i>Amount Ineligible</i></u>
Audit	\$ 2,057
Depreciation associated with an asset purchased with federal and/or state funds is not eligible:	
Computer	408
Buses	<u>14,828</u>
Total ineligible expenses	<u>\$ 17,293</u>

# CITY OF DOWAGIAC

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## *DART FUND*

### **SCHEDULE OF MILEAGE, VEHICLE HOURS, AND PASSENGER DATA**

Year Ended September 30, 2007

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours, and number of passengers transported for the year ended September 30, 2007 are as follows:

#### *MILEAGE:*

	<i>Vehicle Miles</i>
Demand - Response	
1st quarter	11,561
2nd quarter	12,099
3rd quarter	11,727
4th quarter	<u>10,690</u>
Total mileage	<u><u>46,201</u></u>

#### *VEHICLE HOURS AND PASSENGERS:*

	<i>Vehicle Hours</i>	<i>Regular Passengers</i>	<i>Senior Passengers</i>	<i>Handicapped Passengers</i>	<i>Senior Handicapped Passengers</i>
Demand - Response					
1st quarter	1,116	5,282	1,355	653	567
2nd quarter	1,134	5,722	1,691	542	415
3rd quarter	1,134	4,488	1,673	678	527
4th quarter	<u>1,134</u>	<u>2,915</u>	<u>1,765</u>	<u>581</u>	<u>448</u>
	<u><u>4,518</u></u>	<u><u>18,407</u></u>	<u><u>6,484</u></u>	<u><u>2,454</u></u>	<u><u>1,957</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

The City is not using derivative instruments in any of its funds or pension portfolios.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of City Council  
City of Dowagiac, Michigan

We have audited the financial statements of the City of Dowagiac as of and for the year ended September 30, 2007, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Dowagiac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follows:

## **Recording, Processing and Summarizing Accounting Data**

- Criteria:** All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.
- Condition:** As in the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.
- Effect:** As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Dowagiac's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Bertchaine & Co.*

December 14, 2007  
Saginaw, Michigan